

**Azerbaijan Democratic Republic -96**

**OIL FACTOR IN CONFLICT AND DEMOCRACY  
DEFICIT IN AZERBAIJAN, KAZAKHSTAN AND  
RUSSIA.**

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## **Editor's note**

Preparation of this publication was not easy. In fact, the editing took place mostly in exile and on voluntary basis.

This book is a collection of papers based on the presentations at six conferences, held by the Center for National and International Studies in 2013-2014 as a continuation of the series devoted to the anniversary of ADR (Azerbaijan Democratic Republic of 1918-1920).

Conducting these conferences that successfully started in 2005 and continued as ADR round tables into 2008-2014, was eventually been transformed into a challenging task due to the increasingly restrictive environment for the activities of civil society.

While initially in 2008 the organizers had certain freedom in bringing debates to the regions of the country and only the access to some regions was restricted, by 2012 the Center had faced problems along with other independent organizations even when trying to rent venues for their conferences in the capital city Baku. The informal restriction was extended to the most, if not all, of the international hotel branches such as Radisson, Hyatt, and Park Inn, for the independent NGOs and “think tanks”.

For instance, the last conference in this series took place in the reduced format owing to the last minute cancellation of the hall rented in Radisson because of the “power cut” in the hotel. This was just before the major crackdown on civil society in 2014 when in one sweeping move most active civil society organizations and their leaders appeared either behind the bars or had to leave the country.

Besides the fact that during more than six years the round tables brought about 200 prominent experts, researchers, academics, NGOs and political activists together to discuss various actual topics related to the politics and economics in the region, they had other important aspects as well.

They have brought the best experts from Baku to the regions, often to the very distant areas, where both local participants and visitors had an inspiring exchange of ideas. They also introduced the best regional intellectuals and prominent activists – from Turkey, Kazakhstan and Russia - to the society of Azerbaijan and vice versa.

Most importantly, they served several significant goals – promoting culture of open public debates, exchanging and tolerance to the diverse ideas and positions, popularizing most actual scholarly concepts and helping people to get rid of the hardest soviet legacies through “opening minds” and realization of their rich creative and democratic potential.

And last, but not least, the ADR round tables allowed to keep in focus the aspects of people's identity related to their democratic past, constituting their pride. They were thoroughly re-written first by the Soviets, and later, attempts were made by the current post-Soviet leadership, for whom ADR memories and symbols were perceived as obstacles to the restoration of the old regime.

The CNIS would like to express its deep gratitude to the sponsor of the project during six years - to National Endowment for Democracy.

The CNIS also extends its profound appreciation to all participants of the project and contributors to the conferences and the book – to national experts and colleagues and guests from Kazakhstan and Russia.

Publication of this book would have been impossible without hard and courageous work and devotion of the staff of the CNIS, whose contribution is highly acknowledged.

## Introduction

This book is an attempt to review some key aspects of the possible effects of the natural resources on state and democracy building in three Caspian states – Russia, Kazakhstan and Azerbaijan.

The topic is a logical continuation of the previous studies of the CNIS reflecting upon influence of the oil rich economies on political institutions building.

The usual approach to groupings of the states based on geographic regional principle, such as for instance the South Caucasus, should also be supplemented by other indicators - based on structural characteristics of the political economy of the states. In classical study of Terry Lynn Karl, it is not so much geography, or culture which determines similar trends in political and economic development in the resource based states, but the structure of political economy and the nature of relations with external actors. Thus, there is much in common in politics and economics between the countries, she proves, which are located far from each other geographically, but are united by the similar type of political economy. In this regards, Azerbaijan, for instance, besides sharing characteristics with the states of the South Caucasus, due to its resource dependent economy has also some common significant characteristics with the other Caspian states.

To make a comparison between three Caspian states – Russia, Azerbaijan and Kazakhstan- three major areas were chosen for analysis: the role of hydrocarbon resources in political stability of regimes ( Vladimir Milov, Sergey Solyanik and Gubad Ibadoglu), the influence of the EU and US energy interests on democracy promotion agenda in the oil rich states ( Arkadiy Dubnov, Yevgeniy Zhovtis, Shahin Abbasov and Jeyhun Veliyev), and the role of oil factor in conflicts in the region ( Togrul Juvarli, Vadim Dubnov and Amirzhan Kossanov).

While the book represents a mixture of journalistic essays and policy papers, there is one obvious advantage of such approach, when the authors complement and enrich each other by looking at the subject from diverse angles and from the theoretical as well as the empirical perspectives.

Regarding the role of natural resources in the political stability all three authors stress the stabilizing effect of the natural resources in their countries, but rather in a short term and partial perspective. Indeed, none of the three states are comparable in their ratio of oil and gas resources per capita to Kuwait or Saudi Arabia to provide for relatively long term stability, which urges a necessity of the rulers to adjust policies to the potential and actual challenges to stability. But there is also a factor of legacies of the Soviet past, when autocrats avoid distribution of resources which would improve wellbeing of the population to the level of an independent from state middle class.

Yet, in spite of the Constitutional provisions on the conflict of interests, the leaders of the Caspian states very similarly abuse administrative resources to prolong their political life through highly controlled elections. As the study of Gubad Ibadoglu proves, control over the major natural resources through the state ownership allowed Ilham Aliyev to skillfully utilize raising salaries and pensions in the country right before, during and after the elections. Interestingly, the trend of “political” salary raise reveals the basis of the current power, which prioritizes the raise of welfare of the law enforcement sector over health or education sector.

Sergey Solyanik warns of simplistic view on stability in Kazakhstan, showing that unfair distribution of the resources and corruption leads to the emergence of numerous conflicts, whether in the area of labor rights, or in the intra-elite relations, or in the relations with the external actors. While so far, the

government managed to control overall stability, there is a growing concern on how sustainable it is, as opacity and secrecy of the oil contracts led to the personalization of the relations of the Kazakh president and oil corporations, “Chevronization” of the country and weakening of “checks and balances” institutions.

Oil and gas revenues helped Putin to boost his political power, as the paper of Vladimir Milov shows, when the oil price rise helped his to significantly reduce foreign debt and increase social spending. As Vladimir Milov puts it, the combination of strong economic performance, control over leading media and crackdown on political opponents helped Putin’s United Russia to achieve the “Constitutional majority” in State Duma, which in turn allowed him to adopt number of increasingly restrictive legislations. The author stresses, that a political grip on power in 2000s would not be possible without massive inflow of oil revenues.

The role of the external factors in the promotion of democracy in three Caspian states is the topic of the second chapter of the book. While all three states are Post-Soviet and have significant oil dependence, there is a different context in which the role of the West is assessed. Of all three, the issue is the most sensitive in Azerbaijan. Probably, because Russia is a big state with high ambitions viewing itself equal to EU or the US, the issue of democracy promotion did not come up as outstanding in the presented paper. In contrast, both authors from Azerbaijan noted in details the influence of interests of the West on its democracy promotion efforts in the country.

Probably, the difference lies in the fact, that Azerbaijan is the only country of three, which has been participant of the EU and NATO integration programmes. And although the government’s attitude since 1990s has already cooled off, the public still has high level of expectations from the West in terms of its support for democracy. Thus, the acuteness of perception of the West’s inconsistency in the promotion of democracy in the country is higher in Azerbaijani papers, as compared to the other two. Jeyhun Veliyev tracks the US official policies starting from the early 90s and their controversies and inconsistencies reaching its peak during the Bush administration. He stresses that in spite of the rhetoric and official statements, they never had substantial influence on the behavior of Ilham Aliyev, who did not feel any negative consequences of the poor democracy record for bilateral relations strongly cemented by the energy and security interests. While Jeyhun Veliyev focuses mainly on responsibility of the Western states in democracy promotion, Shahin Abbasov, analyzing EU policies in Azerbaijan, suggests that the lack of the mass mobilization in Azerbaijan around EU integration issues contributes to the indifference of the EU to democracy promotion in the country.

The euphoria from the end of the Cold War, considers Yevgeniy Zhovtis, explains the fact, that the West’s policies in the former Soviet Union states have been “short sighted and ineffective”. He shows that in fact the West tolerated brutal violations of human rights practically in all Central Asian states, especially Turkmenistan and Uzbekistan, in spite of their ratification of the international conventions, writing it off on the “oriental mentality”, while successfully cooperating in the energy and security areas. According to the words of Zhovtis, “today democracy has four “enemies” – oil, gas, terrorism and geopolitical considerations”.

Arkadiy Dubnov considers the failure of the Yeltsin’s liberal reforms as having far-reaching consequences for the Russian domestic developments as well as for its relations with the West. Among the pillars of Putin’s policy, he names “closed minds” and oil being the assets which Putin successfully manipulated in his favor. However, by doing so he continues to fall even deeper to the trap of the resource based economy, which prevents country’s modernization, so needed to meet rising standards of the world competition.

And last but not least, this chapter tries to test the role of the natural resources on the conflicts in the region- both at national and regional level. As in the other areas, there are schools of thought attributing the major role in inciting conflicts to the natural resources. While some of the conflicts are indeed caused by the competition over the lucrative or scarce resources, the influence of the oil on the identity conflicts in the region is unclear. Three authors - from Azerbaijan, Russia and Kazakhstan – try to analyze the influence of the resources on the conflicts directly not related to the competition over oil or gas. In fact, the disputes over the oil fields in the Caspian, unlike what is known as the “identity conflicts”, so far have been approached in a relatively peaceful way, although sometimes reaching a dangerous edge.

The complex interplay between the energy interests and stability in Nagorno Karabagh is the subject of Togrul Juvarli’s paper. The thorough historical analysis of the conflict development and trans regional energy projects allows him to conclude that “oil factor” was “stepping in” during the critical periods of the conflict evolution, which might have had an impact on the energy interests. He explores the role of oil not only in stability, but overall in security, as it was utilized by the consequent leadership of the country. The answer to the question is not unambiguous – “the oil can strengthen the security, but also can weaken it”, concludes the author. He stresses that the outcome of the influence is dependent on the political setting it operates in.

Vadim Dubnov proves some inter influence of the oil factor and the conflicts in Russia and waged by Russia – Chechnia, Georgia, Ukraine, but denies its strategic nature. While asserting, that the oil price fall in 1986 predetermined the fall of the Soviet Union, he suggests that because Russia inherited major institutions of the Soviet Union – first of all centralized economy- it is not immune to the similar shocks as was experienced by its predecessor. So called reforms of privatization were in fact not denationalization of the property, but rather “denationalization of an official (a bureaucrat)”. This explains the fact that the structure of the resource based economy did not change, but only the principle of the rent distribution did. The accumulation of the capital in the hands of the narrow circle combined with the large scale of the capital flight is a permanent source of conflicts, where “oil aggravates contradictions.”

Similarly, the paper by Amirzhan Kosanov on Kazakhstan stresses some role of oil in the internal conflicts, but warns from attributing the energy as a driving force to all or major conflicts. He argues, that while the energy interests affect domestic conflicts – social-political protests in response to the unfair distribution of the resources, like events in Janaozen, or even some disagreements to the foreign policy, the emerging trend of the increasing role of the alternative sources of energy will reduce the impact of oil and gas factor on the conflicts in the world.

Thus, the debates in this book confirm a complicated nature of the influence of oil factor on stability and democracy building in the countries of the Caspian. While specificities may differ from country to country, one thing is clear – the resource dependent economies combined with the Soviet legacies create much greater challenges on the way to stability and democracy, as compared to the resource poor states.

The controversy of oil factor is well reflected, although symbolically, on the book’s cover page by the modern female artist from Azerbaijan. Indeed, mirrored in the image of the mermaid, symbolizing a blessing and a romantic image of oil from the external perspective, it is, however, limited to the tail part, while turning into an exhausted, ugly and degraded man on top, apparently resembling the controversies of the social impact of the oil industry on the producing states. This also correlates to a rather sober assessment of the influence of oil on the politics in the region as rendered by the authors of this book.

Leila Alieva.

**Vladimir Milov.**

## **Russian Oil Wealth vs Democratic Institutions: How Resources Have Fueled Authoritarianism**

### **Introduction.**

When Vladimir Putin had arrived at the top summit of power in Russia in 1999-2000, the country was still functioning as a democratic state, though imperfect. Various media outlets had been quite open in criticizing the incumbent authorities even after Putin was elected Russian President in 2000, which have been most visible during the Kursk nuclear submarine tragedy in August 2000. Russian Parliament, the State Duma, was quite diverse and competitive, containing of nine different factions and groups, none of which had controlled more than 25% of the votes – and, although the Parliament had largely maintained a pro-Presidential majority in most cases, legislative process was quite open and involved significant debate before new legislation was adopted, a significant number of Government's legislative initiatives were either turned down or substantially amended before being adopted. During late 1980s and 1990s, Russia had badly suffered from low international oil prices – the oil price collapse of 1986 had greatly affected the economic collapse of the Soviet Union, whereas during the years of President Boris Yeltsin's effective leadership, from August 1991 until December 1999, the average price of Urals crude oil was \$16,70 per barrel. Low oil prices had dramatically hurt the industry's output as well: in 1987, Russia was producing 11,5 million barrels of oil per day, whereas from 1988 onwards the output had badly fallen, bottoming up at around 6 million barrels per day in mid-1990s, almost a 50% decline.

### **Oil factor in Putin's policies.**

However, starting from 2000, this situation had – quite unexpectedly to most experts – changed: export price for Russian oil had remained within the corridor of \$20-24 per barrel, plus the oil output had grown significantly, driven by risen profits and increased effectiveness due to oil industry privatization (growth in oil output in 2003 vs. 1999 was 40%). As a result, federal budget expenses had grown from around \$30 billion in 2000 to around \$80 billion in 2003, and, since 2000, for the first time in history of independent Russia federal budget had a surplus instead of deficit. The Government was able to successfully repay its foreign debts, which had been seen as a major problem when Putin had initially came to power in 2000 – experts and policy makers had been spending much time on the alarmist talk about the “Problem-2003”, a peak of foreign debt payments which had to occur in 2003. “You see, the country had repaid \$17 billion [of foreign debt during 2003] and did not even notice,” said President Vladimir Putin to journalists in end-December 2003, highlighting overcoming of the major problem that have been seen as a major strategic threat of his early years.

Russian foreign debt had reduced from around \$140 billion in 1999 to \$98 in 2004, with perspectives of further shrinking: the Government had started to develop proposals for early foreign debt repayment (ahead of previously set schedules) and creation of national wealth accumulation Stabilization fund. Foreign debt had further shrank to \$40 billion by January 1<sup>st</sup>, 2007. GDP growth rates were at annual average of 6,8%, contrary to negative figures of the 1990s, and average monthly salary had grew from \$70 in 1999 to \$250 in 2004.

These changes had significantly boosted both the public popularity of Putin, which in end-2003 – early 2004 had enjoyed its peak, being backed by strong economic performance. Growth of oil revenues had obviously been a major contributing factor to this. This had helped Vladimir Putin to escape the public

pressure when he had established control over major media sources like ORT, NTV and TV6 television channels, effectively eroding criticism of the authorities from the federal TV screens by the beginning of State Duma re-election campaign in Autumn 2003. Another blow to political competition was the beginning of the series of arrests and criminal investigations against owners and top managers of the Yukos oil company, including the arrest of Yukos main owner, billionaire Mikhail Khodorkovsky in October 2003. These actions were supported by the widespread public campaign against “wealthy oligarchs” who were blamed for disproportionate influence over country’s political and economic course in the 1990s. And Putin have been promoting himself as the “protector of the people” against the interests of the super-rich, which have gained obvious support among the majority of the population. At the same time, Yukos was the main business structure that was supporting and financing a coalition of various political players who had the ability to potentially become some kind of anti-Putin coalition in the newly elected State Duma.

This combination of strong economic performance, establishing control over major media and cracking down on political opponents under populist slogans had allowed Vladimir Putin to establish a “constitutional majority” in the State Duma following the December 2003 elections: Putin’s main loyalist party, United Russia, had won over 300 seats in the 450-seat parliament, more than two-third of the seats, which had allowed it to effectively establish control over legislative process and adopt new legislation in a unilateral manner, without consent of any other parties.

Following seizure of almost complete control over state’s Parliament, the ruling group of Vladimir Putin had swiftly used it to dismantle democratic institutions in the country. Within months, new laws have been adopted that had severely cut basic media freedoms, freedom of assembly, freedom of political parties and associations, freedom of electoral process. Procedures for becoming an opposition candidate at elections of all levels had become extremely tedious, and imposed requirements – excessive. These restrictive legislation had culminated in adoption of amendments to the federal Budget Code on August 20<sup>th</sup>, 2004, which had deprived Russian regions from most of the tax revenues, that had to be from now on redistributed toward the federal center – leaving regional governors, once a powerful political force that had strongly counterweighed the federal political powers of President Boris Yeltsin back in late 1990s, effectively powerless and dependent on Moscow donations.

Three weeks after signing these tax-redistribution amendments to the Budget Code, President Putin had announced abolishing of direct elections of regional governors, something which had completely eliminated any alternative centers of power in Russia counterweighing the authority of the President – thus completed the so-called “vertical of power”. (It is a widespread public belief that abolishing the elections of regional governors came as a momentarily reaction to the Beslan terrorist attack of September 1-3<sup>rd</sup>, 2004, but it’s quite clear that it would not have been possible without the adoption of the tax revenue redistribution amendments three weeks earlier.) The relevant legislation abolishing direct popular elections was adopted in December 2004.

Thus, in 2004-2005 Russian political system had experienced a swift wave of political counter-reforms, scrambling media, civil and political freedoms and virtually centering all the state institutions around one figure, the President. The State Duma, with its “constitutional majority” controlled by a major pro-President party, had effectively turned into a rubber-stamp parliament, which some critics have called “a department of Presidential administration on legislative affairs”. As a matter of fact, the number of Government-introduced laws turned down by this new Parliament had greatly reduced compared to the previous cadences of the State Duma, whereas a lot of new pieces of legislation have been focusing at voluntary transfer of powers to the President (including abolishing governor elections In the first place). New wave of restrictive counter-reforms took place in 2005-2006 following the “color revolutions” in

Georgia and Ukraine – this time, the focus of restrictive measures was centered around NGOs, which were believed to be the potential source of funding and support of the anti-Putin activities.

Oil had continued to play greater role in these developments. In 2004, average Russian oil export price had hit record \$31 per barrel, in 2005 - \$45, in 2006 - \$56, in 2007 - \$64, and a record high \$91 in 2008. Oil export revenues were plentiful, so was the inflow of foreign capital, which had considered investments in Russia now secure given the improved macroeconomics and growing Stabilization fund. This have helped Putin and his group to effectively secure smooth passing of the 2007-2008 Parliamentary and Presidential elections, which were now held under almost complete administrative control: at the time of these elections, financial crisis of 2008 did not yet break out, and Putin-backed United Russia party and Presidential candidate (Dmitry Medvedev) had won record support numbers.

Further on, however, the political environment had changed. Following the 2008 financial crisis, Russian GDP had fell by 8 per cent in 2009, which was among the worst cases in the global economy, and the worst case for Russia since 1994. Although the Government had tried its best to keep up the pace regarding the populist social spending, real disposable income growth had fell after the 2008 crisis to low single-digit numbers, in contrast to high rates of 2000-2008 (average annual real income growth for the Russian population in 2000-2008 was over 12% a year, an unimaginably high figure compared to previous decades). Due to enormous growth of the size of Government, it became much harder to balance the federal budget even under the oil price around \$100 per barrel – but the state-run economy was not able to deliver the previous rates of growth. In 2010-2011, GDP growth was at 4-4,5% a year, much lower than the pre-crisis numbers, eventually slowing down to 3,4% in 2012 and 1,3% in 2013, with 2014 forecast balancing around zero growth, and the levels of output barely returning to the pre-crisis indicators.

Much weaker economic performance during the period from 2009 and onwards have resulted in severe decline of the popularity of the ruling regime, which had eventually culminated in the ruling party United Russia receiving surprisingly weak 49% at the Parliamentary elections in December 2011, and the subsequent mass street protests in Moscow and other Russian cities during winter of 2011-2012. Vladimir Putin's popularity had continued to decline over 2012-2013, boosting only recently following the decisive retake of Crimea from Ukraine. Such a sharp boost in Putin's against the objective trend of the recent years have led to speculation that the new confrontational approach to relations with Ukraine and the West was at least partly intentional and planned with purpose to counterweigh the objective negative trend driven by deteriorating economic situation. It's hard to tell whether such explanations are true or not, but it's also clear that without such confrontational mobilization of the population, it would have been very hard to resist the continuing trend of decline of Putin's popularity due to economic concerns.

However, the restrictive system and centralization of power instituted in the legislation adopted in 2004-2005 had proven to be quite effective and is very much operational by now. Now and then, the negativity against the authorities bursts out in popular vote against the incumbent candidates at direct elections of mayors of big cities, like Yaroslavl (April 1<sup>st</sup>, 2012), Yekaterinburg (September 8<sup>th</sup>, 2013), and, most recently, Novosibirsk (April 6<sup>th</sup>, 2014) – with the latter two being 4<sup>th</sup> and 3<sup>rd</sup> most populous Russian cities, respectively. This is one of the explanations why recently Putin had introduced a package of legislation abolishing direct elections of mayors of around 60 most populous Russian cities, which was adopted by the State Duma that is still very much a rubber-stamp parliament.

**Conclusions.**

It is very important to note that such a strong build-up of Government's confidence and political grip over the country in 2000s would not have been possible without massive growth in incomes from the oil exports, which have risen from \$25 billion in 2000 to over \$100 billion in 2006, and reaching as high as over \$180 billion in 2011-2012. Despite the fact that some kind of "crisis of expectations" is already taking place among the country's population, driven by realization of Government's inability to sustain the high rates of economic and income growth compared to the period of 2000-2008, the authorities, with their Central Bank monetary reserves at the level of almost \$500 billion and near \$400 billion annual federal budget, still have a lot of financial capability to manage economic difficulties and keep the current authoritarian political system afloat.

## The Influence of Oil Companies On Internal Processes in the Republic of Kazakhstan

### Introduction.

The Republic of Kazakhstan (RK) is the ninth largest country in the world and second in the CIS. With such a vast territory, the country's population is about 17 million people. Kazakhstan is rich in minerals and belongs to the category of leading oil producers in the world - more than 80 million tonnes of oil and gas condensate per year. Kazakhstan currently ranks 9<sup>th</sup> in proven oil reserves in the world.<sup>1</sup>

Two decades of the independent development of Kazakhstan showed that the country's economy strongly depends on raw materials due to the increasing use of natural resources. This has led to a hyper-growth in extractive industries, especially oil and gas, which increased disparities in the country's economic development. For example, in the years of independence, Kazakhstan's oil production increased by more than 3 times and gas production - 5 times.<sup>2</sup> The share of the oil sector in the economy is significant. According to the Kazakh Statistics Agency, Kazakhstan's exports in 2012 amounted to more than 92 billion US dollars, of which 56.4 billion or 61 % was received from oil sales.<sup>3</sup>

However, the revenues from the rich resources of the country have not brought tangible benefits to the majority of citizens and have not improved their welfare. Moreover, during the years of independence, such previously unknown social phenomena such as unemployment, poverty, deep stratification, illiteracy and increased sickness rate became constant companions in the lives of ordinary Kazakhs. According to a 2011 study by Rosstat, 99.9 % of citizens in Kazakhstan cannot be attributed even to the middle-class segment of the population.<sup>4</sup>

Poverty thrives mainly in rural areas, where there is often a big problem with access to basic services such as drinking water, health and education. According to statistics, rural poverty in the major oil and gas producing regions of the country reaches 64 % in Mangistau Region, 24 % - in Kyzylorda Region and 17.5 % in Atyrau.<sup>5</sup>

### Access to national natural resources.

The reason for this situation is that officials manipulate and single-handedly manage national natural resources in their own interests, almost depriving people of their right to own them and benefit from their use. This is one of the main causes of poverty in Kazakhstan, although, according to the Constitution of 1995 (Article 6), natural resources are "public property" and theoretically all citizens should benefit from their exploitation.

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<sup>1</sup> <http://www.akorda.kz/ru/category/kazakhstan> 08.12.2013.

<sup>2</sup> «Министр нефти и газа рассказал о ситуации в отрасли», [ortcom.kz](http://ortcom.kz), 18.09.2013.

<sup>3</sup> «Нефть в Казахстане: развитие или стагнация?», <http://www.sarap.kz/index.php/ru/pol-ob/pol-ec/405.html>, 23.07.2013.

<sup>4</sup> Александр Кузнецов, «Почти все население Казахстана – нищие!», [www.respublika-kaz.info](http://www.respublika-kaz.info), 02.06.2011.

<sup>5</sup> <http://integrity.kz>, 29.06.2011.

The government is now almost single-handedly using revenues from the production of natural resources, in particular in the implementation of different kinds of prestigious projects such as the construction of Astana or the holding of various international forums and meetings. For example, according to some estimates, the international exhibition of products and technologies EXPO in Astana in summer 2017 will cost Kazakhstan 1.5 billion US dollars, while 1.65 billion US dollars were spent on the 7<sup>th</sup> Asian Winter Games held in 2011.<sup>6</sup> Even the financing of programmes necessary for the population results in their inefficiency, high costs and high levels of corruption. For example, 2.3 billion US dollars had been allocated from the budget for the "Drinking Water" programme (2002-2010), which disappeared almost without a trace.<sup>7</sup> The Prosecutor's Office of Kazakhstan has long recognized the "Drinking Water" programme as a den of corruption.<sup>8</sup>

A considerable part of the country's wealth is concentrated in the hands of a small group of individuals belonging to the family of the president of Kazakhstan and clans behind him. The opposition press keeps filing scandalous articles on the involvement of the president's family in embezzling state property, corrupt dealings and raider attacks on domestic and foreign businesses. In 2011, the Court of Arbitration at the World Bank admitted a raider attack by the son-in-law of the Kazakh president, T. Kulibayev, and ordered the government of Kazakhstan to pay 125 million US dollars to Turkish companies for the loss of business in the country.<sup>9</sup> According to M. Ablyazov, a political opponent of the regime, President Nursultan Nazarbayev controls at least 80 % of the economy of Kazakhstan.<sup>10</sup>

President Nazarbayev also virtually alone determines the amount and purpose of assets of the National Fund of the Republic of Kazakhstan, which was created in 2000 to ensure sustainable socioeconomic development and the accumulation of financial resources for future generations.<sup>11</sup> The assets of the National Fund are formed by funds received from major enterprises of the raw material sector of Kazakhstan, primarily oil and gas, and as of 1 April 2013, they amounted to 59.806 billion US dollars.<sup>12</sup>

Even the small amount of resources and benefits, which fell into the hands of ordinary citizens on the rights of private property, is not protected from all sorts of abuse on the part of officials and businessmen. A striking example is the manipulation of land after the adoption of the Land Code of 2003, under which the executive authorities were granted the right to manage one of the main natural resources. Behind the adoption of the Land Code of 2003 were major land owners close to the authorities, who lobbied for the law to take over the most fertile agricultural lands in the country. As a result of the manipulation of land plots, which were handed over to villagers after the breakup of former collective farms, more than one million citizens were deprived of land plots.<sup>13</sup>

An active role in the division of natural resources and income from their exploitation is played by multinational companies operating in the country. This is clearly seen in the oil and gas sector, where Chevron (USA) is the largest private oil company in Kazakhstan.

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<sup>6</sup> Светлана Глушкова, «Кибер-активисты подсчитывают расходы на ЭКСПО-2017», <http://rus.azattyq.org/content/kazakhstan-activists-boycott-expo/24919566.html>, 05.03.2013.

<sup>7</sup> Ирина Севостьянова, «Правительство инициирует новую программу по обеспечению населения питьевой водой с многократным увеличением финансирования», *Панорама*, 16.07.2010.

<sup>8</sup> Айнур Балакешова, «Сухой закон», *Литер*, 26.06.2009.

<sup>9</sup> Тихон Алексеев, «Купил за тысячу, а продал за 350 000 000?», *Голос Республики*, №14, 15.04.2011.

<sup>10</sup> Тимур Азамат, «Утемурагов «сдал» Назарбаева», *Взгляд*, №20, 01.06.2011.

<sup>11</sup> Указ Президента Республики Казахстан от 23 августа 2000 года №402 «О Национальном фонде Республики Казахстан». Указ Президента РК от 28 декабря 2004 года №1509 «О некоторых вопросах Совета по управлению Национальным фондом Республики Казахстан».

<sup>12</sup> «Доходность Национального фонда РК составила 3,33% в 2012 году», *КазТАГ*, 30.04.2013.

<sup>13</sup> Владимир Катков, «Земельный комикс», *Литер*, 12.07.2008.

## “Republic of Chevron”

Chevron was the first major foreign company to get the opportunity to work in Kazakhstan after the signing of the agreement on Tengiz in 1993.<sup>14</sup> The company has a 50 % stake in Tengizchevroil (TCO), which is developing the Tengiz and Korolev fields<sup>15</sup>, and 18 % in Karachaganak Petroleum Operating B.V. (KPO) in the Karachaganak field<sup>16</sup>. Chevron also has a 15 % stake in the Caspian Pipeline Consortium (CPC), which is the main export route for crude oil from these fields.<sup>17</sup> The share of TCO is more than 30% of oil produced in the country.<sup>18</sup> The company provides up to 15% of the budget revenues of Kazakhstan.<sup>19</sup> From 1993 to 2012, TCO's direct financial payments to the Republic of Kazakhstan totalled 74.2 billion US dollars.<sup>20</sup> The company itself is none the worse. Just by participating in TCO, Chevron received 4,614 billion dollars in net profit in 2012, which amounted to almost 18 % of the company's revenues in the world this year.<sup>21</sup> Now Kazakhstan is truly a diamond in the crown of Chevron, where 21 % of the company's proven reserves in the world are concentrated.<sup>22</sup>

The stable position of the company in the oil business in Kazakhstan is largely due to long-standing close ties between Chevron and President Nursultan Nazarbayev, which began to take shape in the Soviet era when talks were held on the Tengiz and Korolev fields. Rumours that representatives of Chevron had to return Nursultan Nazarbayev and his entourage's kindness in order to get Tengiz have a long history. We only know that persistent opponents of the contract with Chevron suddenly became its supporters overnight<sup>23</sup>, and J. Giffen, an official adviser to Mr Nazarbayev and mediator in the negotiations, began to receive 7.5 cents for every barrel of oil at Tengiz.<sup>24</sup> Although the country's public has a lot of questions for Mr Nazarbayev and officials related to the contract with Chevron, all of them remain unanswered. The contract and any attachments thereto are under the veil of a "commercial secret" and are unavailable to the general public<sup>25</sup>, although the issue is about national natural resources.

The Tengiz deal with Chevron helped to strengthen the political situation of Nursultan Nazarbayev in the country when he publicly announced in the autumn of 1991 that an investment boom and an increase in the welfare of the people await the republic in the coming years in connection with the arrival of American capital and technology, while empty Soviet stores would turn into Western supermarkets. These promises played a role in the victory of Nursultan Nazarbayev in the first presidential election in December 1991. However, American technology never came to Kazakhstan, and the country was doomed to the export of raw materials.<sup>26</sup>

With the arrival of Chevron, the practice of "revolving doors", which corporations actively use in the US and other countries, became widespread in Kazakhstan - when government officials get a job in a corporation and vice-versa - the most experienced company employees get a seat in the government. This

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<sup>14</sup> [http://www.tengizchevroil.com/ru/about/tco\\_history.asp](http://www.tengizchevroil.com/ru/about/tco_history.asp), 14.06.2012.

<sup>15</sup> [http://www.tengizchevroil.com/ru/about/the\\_tco\\_field.asp](http://www.tengizchevroil.com/ru/about/the_tco_field.asp), 02.08.2012.

<sup>16</sup> <http://www.kpo.kz/about-kpo.html?&L=1>, 29.04.2013.

<sup>17</sup> Chevron, 2012 Annual Report, p.47.

<sup>18</sup> Тенгизшевройл цифры и факты, Итоги 2012 года, [www.tengizchevroil.com](http://www.tengizchevroil.com), 21.04.2013.

<sup>19</sup> Письмо «Шеврон Мунайгаз Инк.», 08.05.2013.

<sup>20</sup> Тенгизшевройл цифры и факты, Итоги 2012 года, [www.tengizchevroil.com](http://www.tengizchevroil.com), 21.04.2013.

<sup>21</sup> Chevron, 2012 Annual Report, p.46.

<sup>22</sup> Form 10-K, Chevron Corporation, December 31, 2012, p.29.

<sup>23</sup> Сағындық Мендыбаев, Виктор Шелгунов, «Клептократия. Казахгейт. Новое расследование», [http://neweurasia.info/archive/book/kleptocrazia/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocrazia/part4_2.htm), 21.06. 2012.

<sup>24</sup> Steve LeVine and Bill Powell, A President and His Counselor, *Newsweek*, 2 July 2000.

<sup>25</sup> М.Адиллов, «Коммерческие тайны» Тенгизского двора», *Республика*, 24.10.2003.

<sup>26</sup> Сағындық Мендыбаев, Виктор Шелгунов, «Клептократия. Казахгейт. Новое расследование», [http://neweurasia.info/archive/book/kleptocrazia/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocrazia/part4_2.htm), 21.06. 2012.

flow of people back and forth serves the interests of the firm when it is necessary to lobby for another project or amendments to the law<sup>27</sup>. Among former and current employees of Chevron are people and officials known in the country and in the Atyrau region. Close ties with senior officials of the country, particularly in combination with Nazarbayev's warm attitude to the company promote the "sustainable" business of Chevron in Kazakhstan. It is known that the president has repeatedly personally helped the company solve some of the problems associated with tariffs, taxes and environmental regulations<sup>28</sup>.

If the parties cannot find common ground on some issues, the US government gets involved in dealing with the issue. This was the case in the summer of 2010 when in the midst of the conflict between TCO and the Kazakh Ministry of Oil and Gas over "illegal oil extraction" from "the wrong depth" in the amount of \$ 1.4 billion<sup>29</sup>, Kazakhstan was visited on a business trip by the US special envoy for energy in the Eurasian region, Richard Morningstar, who held talks with the country's government. Immediately after the visit of the senior US diplomat, the conflict subsided dramatically, and an intention was announced to settle the dispute by including new depths in the TCO documents.<sup>30</sup>

It is believed that, given the financial and political weight of Chevron inside and outside the country, the company behaves like a state within a state in the Republic of Kazakhstan, strictly controlling not only productive activities, but also all aspects of life in Tengiz – it has its own border, its own security, its own rules and laws and even its own traffic police. Everything that happens behind the fence of the company and the closed TCO residential village in the centre of Atyrau does not really matter to Chevron - neither the high rate of unemployment and the low social security of the local population, nor the prices of goods and services that are higher than in other regions of the country due to the dominance of oil companies in the region. The situation is similar at Karachaganak. For Chevron and other foreign investors, Kazakhstan has long turned into a kind of field camp where people come to pump out natural wealth and make money, leaving behind large-scale environmental pollution, poverty and powerlessness.

## **Corruption**

The situation is complicated by the high level of corruption that prevails at all levels of government in the country. According to Transparency International in 2013, Kazakhstan takes 140<sup>th</sup> place in the Corruption Perception Index and the country's rating is lower than that of Georgia, Armenia and Russia. However, among the five Central Asian republics, Kazakhstan is the least corrupt one. Experts point out that corruption has become a major obstacle to doing business.<sup>31</sup>

Nevertheless, the strong position of a number of foreign companies in the country is the result of their "special relationship" with the leadership of Kazakhstan. There is a well-known corruption scandal called "Kazakhgate", which erupted in 2003 and was linked to millions of dollars given to the republic's leadership in bribes by the world's major oil companies to gain access to the country's oil fields. During court hearings against J. Giffen, former adviser to the president of Kazakhstan, which lasted in the US for years, allegations surfaced about the involvement of Mobil and Amoco in bribing President Nazarbayev and Minister of Oil and Gas Industry N. Balgimbayev for the right to enter the Tengiz project and the Caspian Pipeline Consortium, as well as other corruption deals<sup>32</sup>. In 2007, a regional court in Houston,

<sup>27</sup> Эффект "вертушки" и лоббирование, <http://www.seu.ru/cci/campaign/gen/evil.htm>, 21.06.2012.

<sup>28</sup> Сағындық Мендыбаев, Виктор Шелгунов, «Клептократия. Казахгейт. Новое расследование», [http://neweurasia.info/archive/book/kleptocrazia/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocrazia/part4_2.htm), 21.06. 2012.

<sup>29</sup> Оксана Мартынюк, «Конфликт на исходе», *Курсив*, 14.06.2012.

<sup>30</sup> Ibid

<sup>31</sup> «Казakhstan «упал» в рейтинге коррупции», <http://www.respublika-kz.info/news/society/34165/>

<sup>32</sup> Тихон Алексеев, «Миллионы «зеленых» для Назарбаева», *Голос Республики*, №16, 30.04.2010.

Texas, United States, acknowledged that the American company Baker Hughes, which was a contractor at the Karachaganak field, was guilty of bribing officials in Kazakhstan for obtaining a lucrative contract<sup>33</sup>. In 2010, M. Abylazov sent a statement to the Prosecutor General's Office of the Republic of Kazakhstan, which was supported by the documents about T. Kulibayev's illegal deal with the Chinese National Petroleum Company (CNPC) on the sale of the state-owned shares of JSC CNPC - Aktobemunaigas at low prices. As a result of the deal, he received a bribe of \$ 165.9 million from the Chinese company<sup>34</sup>. In June 2012, another scandal erupted at Karachaganak after The Wall Street Journal published an article about the investigation in the fact that KPO authorized payments to Kazakh customs officials via DHL to ignore errors in customs documents<sup>35</sup>.

## National legislation

At the dawn of independence, Kazakhstan attempted to abandon an economy based on raw materials and create a legal framework for addressing environmental problems. However, the subsequent evolution of environmental legislation took the path of weakening in favour of the interests of the country's leadership and transnational extractive companies. The easing of laws and the reduction of environmental standards began in favour of major companies, which came to play an active role in the modernization of the country's environmental laws to solve their own problems.<sup>36</sup>

For example, for many years there were battles on the public storage of lump sulphur at the Tengiz deposit, which forms as a result of the purification of crude oil and associated gas. By the volume of open storage of sulphur, TCO is one of the leaders in the world.<sup>37</sup> According to Kazakh Government Resolution № 1154 of 6 September 2001, sulphur was considered a waste product during prolonged storage, resulting in tangible financial claims to TCO. So, in late 2007 the company was fined about \$ 303 million<sup>38</sup>. However, TCO used its means and connections to change the legal framework of financial sanctions. And in January 2008, Resolution № 1154 was repealed<sup>39</sup>. In 2009, the Kazakh parliament adopted a decision under which sulphur suddenly became a "product without much impact on the environment", although previously it was considered waste<sup>40</sup>. Moreover, in 2010, the government of the Republic of Kazakhstan and TCO signed a special agreement on sulphur, which in fact recognized the illegality of the seizure of \$ 342 million from TCO for the open storage of sulphur and the right of the company to compensate this amount from their payments to the Kazakh side<sup>41</sup>.

In June 2013, at a cabinet meeting, Environment Minister N. Kapparov raised the issue of transferring fees for exceeding the quotas for greenhouse gas emissions for mining, energy and industrial companies from the current year to 2014 and halving penalties. The reason for this strange statement for the country's chief ecologist was quite understandable. Stringent environmental sanctions were opposed by major oil companies, in particular, TCO and the NCOC consortium, the developer of the Kashagan field. According to them, the struggle for the protection of nature had turned into a mere collection of billions of dollars for the budget. The chairman of the working group to reform environmental legislation was the

<sup>33</sup> <http://www.greensalvation.org/index.php?page=berezovka>, 13.07.2011.

<sup>34</sup> <http://www.respublika-kz.info/news/politics/7279/>, 26.01.2010.

<sup>35</sup> «Проверка не подтвердила факты взяточничества на казахстанской таможене с участием крупных нефтегазовых компаний - КТК Минфина», *Интерфакс-Казахстан*, 15.06.2012.

<sup>36</sup> Сергей Куратов, «Эволюция природоохранного законодательства Казахстана», *Вестник «Зеленое спасение» №19*, 2010, с.17.

<sup>37</sup> Тенгизшевройл, «О сере», [www.tengizchevroil.com](http://www.tengizchevroil.com), стр.4.

<sup>38</sup> Аскар Аукенов, «Сера - большое преимущество и большое бремя», *Панорама*, 20.02.2009.

<sup>39</sup> <http://adilet.minjust.kz/rus/docs/P010001154>, 25.08.2012.

<sup>40</sup> Лев Гузиков, «Тенгизшевройл» хотят остановить», *Туран*, 19.06.2012.

<sup>41</sup> Оксана Мартынюк, «Конфликт на исходе», *Курсив*, 14.06.2012.

president of the Kazakhstan Petroleum Lawyers' Association and managing legal adviser to the Eurasian division of the Chevron Corporation, Zh. Elyubayev<sup>42</sup>. It is not surprising because TCO is the main polluter of Atyrau Region, where the company's share accounts for 70 % of emissions by oil and gas sector enterprises<sup>43</sup> and one of the leaders in the country and in the amounts of fines for environmental pollution. For example, in 2010 the company paid about 34 million US dollars<sup>44</sup>.

### **Labour conflicts**

Foreign companies are very proud of their policies in the field of labour relations. For example, in 2009, a collective agreement of TCO was voted the best in the Paryz national contest for the social responsibility of business<sup>45</sup>. However, in reality there are no independent trade unions in major oil companies or they are under severe pressure. For example, the independent union existing at Tengiz collapsed in the early 2000s after a long standoff with the company management<sup>46</sup>. TCO also actively and openly opposes the establishment of independent trade unions in their contractors, although the company says that it supports collective agreements and respects workers' rights in contracting organizations<sup>47</sup>.

As a result of unresolved labour relations, the activities of Chevron are accompanied by a string of labour disputes and clashes between Kazakh and foreign workers in the contracting companies working on TCO facilities. The main causes of conflicts and grievances of local workers are usually low wages, poor working and living conditions, illegal dismissals and discrimination on ethnic grounds. The biggest incident at Tengiz occurred in 2006 - a mass brawl and unrest in the contracting organization Senimdi Kurylys. According to official data, 339 Turkish citizens were injured in the fight, and 136 of them received serious injuries<sup>48</sup>. Immediately after the events, about 1,000 Turkish workers left Tengiz. The Turkish Foreign Ministry was involved in resolving the conflict<sup>49</sup>.

Not only subcontractors and relevant authorities of the country are to blame for the conflicts and mass violations of Kazakh labour legislation, large mining companies such as TCO also bear some responsibility. At the heart of the bloody events in Zhanaozen in December 2011 was also a labour dispute between workers of oil producing companies and their employers.

### **"Chevronization" of the whole country.**

The arrival of major oil companies such as Chevron in the country did not serve the interests of the state and the people of Kazakhstan in the best way.

The secrecy and opacity of contracts for the sale of national natural resources and productive assets became common practice in Kazakhstan where the government conducted negotiations secretly not only from the parliament, but from most members of the government. Some politicians regard the disadvantageous terms of the contract and the price for Tengiz as a betrayal of national interests<sup>50</sup>. No wonder that one of the latest initiatives of the Kazakh opposition is to hold a national referendum on the

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<sup>42</sup> Лаура Сулейменова, «С кем вы, господин министр?», <http://azh.kz/ru/news/view/15308>, 18.06.2013.

<sup>43</sup> Ербол Куанов, «Экологические проблемы Атырауской области, пути решения, внедрение современных технологий», 18.04.2013.

<sup>44</sup> "Три нефтяные компании нанесли ущерб экологии РК на 10 млрд. тенге", *Курсив*, 26.01.2011.

<sup>45</sup> [http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement\\_Final.pdf](http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement_Final.pdf), 12.01.2011.

<sup>46</sup> <http://www.oilcapital.ru/industry/93388.html>, 31.05.2004.

<sup>47</sup> [http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement\\_Final.pdf](http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement_Final.pdf), 12.01.2011.

<sup>48</sup> Лев Гузиков, «До первой нефти – до первой крови», *Новости Атырау*, 19.10.2012.

<sup>49</sup> [http://online.zakon.kz/Document/?doc\\_id=30074592](http://online.zakon.kz/Document/?doc_id=30074592), 26.04.2013.

<sup>50</sup> <http://www.nefte.ru/projekt/s1.htm>, 24.04.2013.

return to state ownership of large steel companies sold, in their opinion, for a song in the 1990s<sup>51</sup>. The opacity of financial flows from transactions with foreign investors has become the norm in the country. It is from the Tengiz deal that Kazakhstan received a large sum for the first time, but few people know where the money went<sup>52</sup>.

Chevron and other major oil companies get huge profits due to the difference in the price of oil in the country and on the foreign market, its refining at their own plants and the sale of petroleum products through their retail network<sup>53</sup>. The billions of dollars flowing out of the country certainly concern the Akorda, which periodically attacks foreign investors for justified and false reasons in an attempt to get additional income. Nevertheless, Kazakhstan's leadership is unlikely to take any radical steps towards the nationalization of large oil fields, and not so much because of technological as political reasons. Due to the significant contribution of the Tengiz project to the country's economy, the Akorda is heavily dependent on the financially powerful and politically influential American corporations Chevron and ExxonMobil<sup>54</sup>. And attempts to independently manage assets that are already in the area of the strategic interests of transnational companies are fraught with serious trouble for the country's leadership as was shown by "Kazakhgate". Moreover, the Arab Spring gave Central Asian leaders a clear lesson of how easily and quickly the once all-powerful rulers can remain without power and fortunes. Kazakh opposition leaders, who have not included any enterprise of the oil and gas sectors on the list of facilities to be nationalized, also seem to understand the "subtleties" of the oil business<sup>55</sup>. Kazakhstan has already largely lost its economic and political sovereignty by transferring national assets into the hands of major foreign investors, which largely shape economic policy and have turned the country into a raw materials appendage of developed countries.

## Conclusions.

Kazakhstan's leadership is apparently satisfied with this situation and is not interested in the real economic modernization of the country. The authoritarian political system does not allow any new ideas or the economy as a whole to develop. It is easier to control the few cash flows from the sale and transportation of raw materials than to develop a diversified economy that requires clear rules and guarantees for private property.

Foreign oil companies are probably quite satisfied with the authoritarian political system of Kazakhstan where they feel comfortable thanks to well-established relations with the Kazakh president and his entourage and treat human rights and the law the way the country's leadership treats them. Just like the authorities of Kazakhstan demonstrate an imitation of democracy, companies mimic corporate responsibility and transparency.

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<sup>51</sup> Марат Жанузаков, «Казakhstanцы не хуже монголов», <http://www.respublika-kaz.info/news/politics/29999/>, 22.04.2013.

<sup>52</sup> М.Адиллов, «Коммерческие тайны» Тенгизского двора», *Республика*, 24.10.2003.

<sup>53</sup> С.Мамбеталин, «Почему я против Кашагана», [http://forbes.kz/process/pochemu\\_ya\\_protiv\\_kashagana\\_chast\\_1](http://forbes.kz/process/pochemu_ya_protiv_kashagana_chast_1), 10.01.2013.

<sup>54</sup> Артур Шахназарян, «Акорда – «Шеврон»: ситуация идет в тупик», <http://www.respublika-kz.info/news/business/24251/>, 27.07.2012.

<sup>55</sup> Марат Жанузаков, «Казakhstanцы не хуже монголов», <http://www.respublika-kaz.info/news/politics/29999/>, 22.04.2013.

However, due to the unfair mechanism of distributing incomes and receiving benefit from the exploitation of national natural resources, discontent and protest are growing in the country, which is particularly noticeable in oil producing areas and threatens to lead to a social explosion, the consequences of which can be very sad for the sovereignty and territorial integrity of the country<sup>56</sup>.

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<sup>56</sup> In preparing this article, the reports "Kazakhstan's Implementation of the OSCE commitments in the field of human rights on a healthy environment" (2011) and "The Republic of Chevron - 20 years in Kazakhstan" (2013) were used.

**Gubad Ibadoglu.**

## **Assessment of the Abuse of Administrative (Financial) Resources During Elections - Case Study of Azerbaijan<sup>57</sup>**

### **Introduction.**

The budgetary process and the inter-budgetary relations of the Republic of Azerbaijan are regulated by the Bill on budget system of the Republic of Azerbaijan<sup>58</sup>. The present law establishes legal, economic and organizational framework for the preparation, adoption, execution and control over execution of the state budget on each fiscal year. The budget system of the Republic of Azerbaijan contains the state budget of the Republic of Azerbaijan, the budget of Nakhchivan Autonomous Republic and local budgets.

Budget system is based on the operation of budgets included to this system on the principles of unity and their independence. Unity of a budget system is based on the mutual relations of budgets by using regulatory revenue sources, creating a targeted budget and distribution of financial resources among budgets of various levels. Unity of a budget system is ensured by the same budget classification, use of budget documents and forms, preparation of periodic statements and summary budget statements and their submission in compliance with the law. Independence of budget is ensured by revenue sources in accordance with the current law and the right to finance directions of expenditure within the unified budget classification. The Executive's Budget Proposal is the government's most important policy instrument. It presents how the government plans to raise revenues and where these funds are allocated, thus transforming policy goals into action. In Azerbaijan the Draft Budget Law does not provide comprehensive details<sup>59</sup>.

### **Regulation of Budget and Elections in Azerbaijan.**

Article 6 of the Bill on Budget System regulates the reserve funds in Azerbaijan. The volume of the Reserve Fund of the President of the Republic of Azerbaijan is defined as not exceeding 2 percent of the incomes of the state budget. The Fund's assets are allocated to events of great importance in the socio-economic life of the country. In this law, the paragraph 7 of the Article 6 on "Reserve Funds" specifies that *the assets of the Reserve Fund of the President of the Republic of Azerbaijan cannot be used for holding elections and referendums in the country and promoting the activities of the President of the Republic of Azerbaijan* and it is banned under the above mentioned law. The assets of the Reserve Fund of the President of the Republic of Azerbaijan are spent on financing expenditures specified in the decrees of relevant executive power body.

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<sup>57</sup>This research paper is developed by the Economic Research Center (ERC) within the framework of "Monitoring and Advocacy of Use of State Resources in Azerbaijan to promote adherence to International Best Practice" project implemented by the Electoral Reform International Services (ERIS) with joint financial support of the European Union and United Kingdom and based on the analysis of state budget of the Republic of Azerbaijan in 2013.

<sup>58</sup><http://www.maliyye.gov.az/sites/default/files/The%20Law%20on%20budget%20system%20of%20the%20Republic%20of%20Azerbaijan.pdf>

<sup>59</sup> <http://internationalbudget.org/wp-content/uploads/2011/04/OBI2010-Azerbaijan.pdf>

Similarly, there is not any requirement in the law that mentions the distribution of resources of reserve fund of the President. At the same time, the Chamber of Accounts has not fulfilled any analysis and assessment in this direction till now within its reference (review) on budget execution. Therefore, despite the fact that the orders of the President on allocation of resources are not related explicitly for election purposes, however, the allocated funds can play a vital role on his pre-election campaign. The realization of these actions is not only justified at the expense of resources of the Reserve Fund, but through increasing the salaries, social allowances, stipends and pensions of employees of organizations financed from the budget as well.

The information (operative) about execution of the state budget for 2013, shows that the income of the state budget for 2013 was 19494,4 million manat<sup>60</sup>, the expenditures were 19112,6 million manat, e.g. there occurred budget profit in amount of 19112,6 million manat.

The incomes of the state budget were executed for 101,8 percent during 2013, which is 2212,9 million manat or 12,8 percent more in comparison to the same period of the previous year. The Ministry of Taxes of the Republic of Azerbaijan transferred 6664,0 million manat to the state budget executing the income forecast for 10,1 percent during the current year, which is 264,0 million manat more in comparison to the forecast, 638,5 million manat or 10,6 percent more in comparison to the same period of 2012. The State Customs Committee of the Republic of Azerbaijan has executed the forecast for 100,2 percent during the 2013 and transferred 1383,2 million manat, which is 174,9 million manat or 10,4 percent in comparison to the same period of the previous year. The expenditures of the state budget for 2013 was executed for 96,3 percent compared to the forecast, which is 1696,1 million manat or 9,7 percent more in comparison to the corresponding period of the previous year.

50,7 percent or 9688,1 million manat was allocated for current expenditure, while 45,5 percent or 8696,3 million manat was allocated for investment purposes in 2013.

In accordance with the economic classification, 32,6 percent or 6239,0 million manat of the state budget expenditures was allocated from the state budget to funding social costs (labor payment fund, pensions and social benefits, medicines and food costs) during the current year, which makes 10,6 percent or 598,0 million manat more in comparison with the corresponding period of the previous year.

*Table 1. Major indicators of the State Budget of the Republic of Azerbaijan in 2013*

Month	Budget revenues, mln. manat	Budget revenues, as a share of GDP, %	Budget expenditures, mln. manat	Budget expenditure, as a share of GDP, %	Budget deficit(-), mln. manat	Budget deficit as a share of GDP, %
January	1768.1	39.5	1391.7	31.1	376.4	8.4
February	3202.3	38.4	2893.4	34.7	308.9	3.7

<sup>60</sup> As of 28 November 2014 the exchange rate of Azerbaijani manat to euro was 1 AZN =1.02 EUR.

March	4669.4	36.1	4514.8	34.9	154.6	1.2
April	6653.9	38.6	6243.5	36.2	410.4	2.4
May	8249.4	37.3	7434.4	33.6	815.0	3.7
June	9524.5	35.0	8730.2	32.1	794.3	2.9
July	11371.4	35.2	10224.2	31.7	1147.2	3.6
August	12890.1	34.4	11623.2	31.1	1266.9	3.4
September	14330.1	33.5	12719.7	29.8	1610.4	3.8
October	16234.8	34.1	14020.7	29.5	2214.1	4.7

### **Trends in Political Spending.**

The conducted research has shown that the most popular and widespread form of last year state budget use for political purposes is strengthening the social care of state in budgetary organizations during the pre-election period (Please see the October 2013 in the Table 1).

This policy which is enacted through the hike of baseline of salaries, stipends, allowances and pensions is embracing roughly 2,8 million constituencies in each election year. In a nutshell, these electorates constitute in average 55 percent of individuals who have the voting rights. The last case in regard to the utilization from the budget for such aims has occurred amid 2013 presidential election and it embodied various directions.

The President of Azerbaijan Republic has signed 45 Orders for increasing the wages, pensions and stipends of those individuals working at the organizations financed from the state budget within the last 10 days of August, 1 month and 10 days until the presidential elections.

As a result, additional 380 million manat were allocated and this reached out to 2,8 million persons. This information is described below:

- The increase of monthly salaries (tariff) of employees working at the organization funded at the expense of the budget (the number of individuals under this category who benefited from wage increases was up to 500 thousand );
- The increase of monthly allowances provided for internally displaced persons for food expenses (the number of individuals under this category who benefited from the soaring of

- monthly allowances was up to 700 thousand);
- The hike of baseline of labor pensions (the number of individuals under this category who benefited from presidential decrees amounted 1,3 million);
- Increasing welfare of specially selected and sensitive groups (this category includes the hike of monthly stipends of honorary title owners, disabled war veterans, victims' families and national heroes, and the number of these persons are up to 10 thousand).

Additionally, the resources of reserve funds formulated at the expense of state budget are mainly directed for social and popular purposes in the election year. Currently, there are 2 reserve funds functioning under the base of state budget resources. The Cabinet of Ministers has the authority to give orders over the reserve fund of the state budget; however, the President has the authority to issue order on the use of resources from the reserve fund.

The research of the experts of ERC conducted on the basis of 22 country experiences covering the Central and Eastern Europe, South Caucasus and Central Asia has revealed that the reserve funds exist only in Azerbaijan and Georgia. In each of 2 countries, the Presidents hold an exclusive right and authority over the resources of the Funds. Taking into consideration the fact that there were elections in both of these 2 countries in 2013, an in-depth research was mainly conducted in Georgia and Azerbaijan. The analysis of budgetary materials has demonstrated that the Reserve Fund of the President of Azerbaijan Republic is 73 times greater than the reserve fund of the President of Georgia. Thus, despite the fact that 50 million GEL<sup>61</sup> was proposed for Reserve Fund of Georgian President in 2013, the Parliament decided to reduce this figure by 5 times and it fell down to 10 million lari or 4 million 741 thousand manat. Nevertheless, 47 million manat funds were allocated for the Reserve Fund of the President of Azerbaijan Republic in 2013 in comparison to 2012. As a result, the funds directed from the state budget of Azerbaijan Republic to the reserve fund of the President during 2013 election was 10 times more than the total resources of the reserve fund of Georgian President. In general, if the Reserve Fund of the President of Azerbaijan was 300 million manat in 2013, this figure has reached up to 347 million manat in the current year.

It was indicated by the law on budget system of the Republic of Azerbaijan that the volume of the resources of Reserve Fund of the President of Azerbaijan Republic is determined as less than 2 percent of the revenues of state budget. The resources of this Fund are mainly channeled to the activities of vital importance for improving the socio-economic situation in the country. The resources of Reserve Fund of the President of Azerbaijan Republic should not be spent to conduct elections and referendum in the country as well as in the direction of promotion of activities of the President of the Republic of Azerbaijan.

Nonetheless, the analysis over expenditure directions of the Reserve Fund of the President of Azerbaijan has proven that <sup>62</sup> 253 million 900 thousand manat (73,1 per cent of total amount of Reserve Fund of the President of Azerbaijan for 2013) was spent until the date of October 7, 2013 by Ilham Aliyev for the

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<sup>61</sup> As of 28 November 2014 the exchange rate of GEL to EUR was 1 GEL=0,437 EUR.

<sup>62</sup> <http://www.budget.az/budget/main?content=424>

purpose to expend the resources of the Fund until 2013 presidential election. According to the paragraph 32 of Article 109 of the Constitution of Azerbaijan Republic, there were 87 orders issued aimed at facilitating the socio-economic development of the regions.

## Conclusions

The past presidential election held in the 9th of October, 2013 has demonstrated that the budgetary funds were used for social and popular purposes. Thus, the salaries of employees from all categories working at those organizations that are funded under budget resources have been increased by 10 percent amid pre-election period. The calculations have shown that 380 million manat were directed from the budget in these directions.

The President Ilham Aliyev has signed orders since the last 10 days of August on increasing the salaries, pensions, stipends and other social payments of diverse strata of population from the budget by 10 percent. The number of such orders is accounted roughly 20 and since that time the President issued them in various dates. The majority of local analysts have indicated that this aspect can be considered as a part of election campaign of Ilham Aliyev during presidential elections conducted on October 9. Additionally, the economists forecast that the massive hike of wages will bring about inflation in the country and there are prevailing assumptions that the effect of 10 percent wage increase will cause negative repercussions for Azerbaijan population, for example soaring of prices.

See the following table that depicts the increase of salary, pension and stipend for diverse group of population after the end of September:

*Table 2.* Increase of salary, pension and stipend for diverse group of population on the eve of the Presidential Elections in Azerbaijan

Areas received salary increases	Until September 01 of 2013 (in manat)	After September 01 of 2013 (in manat)	Growth (in manat)
senior officers and civil servants who do not pertain to state officer status of the Ministry of Internal Affairs	520	572	52
Health care officers – average monthly salary	184,3	202,7	18,4
Teachers – average monthly salary	184,3	202,7	18,4
Baseline of labor pensions	85	100	15
Minimum monthly salaries	93,5	105	11,5
Allowances for funerals	110	121	11
Allowances for birth of child	82,5	90,75	8,25
Students – average stipend for master degree and bachelor degree students	76	83,6	7,6

Allowances for an age	55	60,5	5,5
Average allowance by 3 <sup>rd</sup> group for disability	47,6	52,4	4,8
Monthly allowance for food expenses given to internally displaced persons	16,15	18,15	1,65

As it can be clearly seen from the above Table, the diverse group of population that benefited from salary hikes had taken advantage from this through various means. While studying more in depth the orders of the President, it can be inferred that the salaries of senior officers and civil servants who do not pertain to state officer status of the Ministry of Internal Affairs have been increased up to the highest level in comparison to others. The reason is that the wage increase until this stage has been raised for several occasions and according to estimated calculations the base salary of these employees constituted 520 manat till September. Thus, if the salaries increased by 10 percent, then the police officers would acquire 52 manat more at the end of September. Nevertheless, for instance the money given to internally displaced persons was 16 manat 50 qapik. After the hike of salaries with 10 percent, the real increase constitutes 1 manat 65 qapik at the end of month.

The increase of wages of teachers and doctors was roughly 18 manat 40 qapik. The salaries of individuals that pertain to these strata are paid according to the 10<sup>th</sup> degree in accordance to the decree of government dated back to December 13, 2011. The lowest degree is considered 93,5 manat and the highest degree is 680 manat, (the 19<sup>th</sup> degree). This table describes the average salaries based on those degrees. In other words, this accounts to 184,3 manat and when the wages are increased by 10 percent both the teachers and doctors obtain 18 manat 40 qapik more finance compared to their previous salaries.

Additionally, the stipends of students were calculated the same way and the average score was determined. The stipends of ordinary students and those students that study with low grades are different. The average stipend between them is estimated 76 manat.

### **Main Findings and Recommendations:**

- Budget legislation and legal examination showed that in the Election Code, there are significant legal gaps on public funds (state budget, extra-budgetary funds and state-owned companies) in regards to the abuse of financial resources for the election campaign.
- The structural analysis of budget expenditures in 2013 showed that during the presidential election year there was observed the increase in salaries and pensions funds, compared to the previous years.
- The trend analysis of budget expenditures showed that the main budget expenditures were allocated before, during the month of election and after the presidential election in 2013. Inclusion of the detailed information about all projects financed at the expense of the state capital investments should be included into the budget package for the purpose of transparency and accountability;
- There should be an establishment of normative-legal base regarding expenditure and accounting of the off-budget expenditures and determination of legal limits related to the amount of these expenditures;

- Implementation of prohibitive legal norms related to the budget expenditures that are being used for popular, social and public purposes from the budgetary funds before and during election period should be promoted;
- The proportional distribution of the budget should be based on performance in months;
- The experience of using the classification of the expenditures not specified in the normative and legal acts related to the budget classification should be rejected.
- There should be implementation of root changes in the budget legislation in order to provide passing to the result-based budget and, forecasting the budget expenditures of the next and further three years upon each functional section based on the target programs and strategic plans of budget customers.
- Determination of the target indicator of the social expenditures and particularly, the educational and health expenditures in average-term period and their share in the budget and the maintenance of this level while forecasting the budget expenditures should be achieved.

**Arkadiy Dubnov**

## **Russia Has "Gone Crazy" Again?**

### **Introduction.**

Events surrounding Ukraine changed the world as it changed only a quarter of a century ago as a result of the collapse of the USSR. A summary of those changes was the famous article by Francis Fukuyama's "The End of History". Its author thought that with the collapse of the main stronghold of communism, the victory of liberal democracy was irreversible. The country, which sat on a one-sixth of the Earth's land and collapsed under the weight of numerous factors and dramatic circumstances – the botched and bloody war in Afghanistan, the rise of nationalist movements on the outskirts of the Soviet empire, the loss of ideals, split of elites, and more importantly, defeat in the debilitating arms race with the US due to the fall in world oil prices, seemed to be doomed to joining the camp of Western democracies by the very course of history. It did. Just for a couple of years, until October 1993, when Russia's parliament was fired at on orders of President Yeltsin. And after a couple of months, with the success of Zhirinovskiy's party in the elections to the first post-Soviet parliament, named the State Duma in continuation of the pre-revolutionary tradition, the Russian "reconquista" began. A sign of that time was the famous and liberal woeful cry of the well-known journalist Yuriy Karyakin, which he literally let out live on television throughout the country on election night: "Russia, you've gone crazy!"<sup>63</sup>

### **Dilemma's of Yeltsin rule.**

The movement for economic, institutional and political reforms in Russia, which was started by Gaidar's team and met with hostility by Soviet elites, who had not lost their influence and were supported by huge masses of people discouraged by the catastrophic fall in living standards - this movement was suspended.

Yeltsin was forced to manoeuvre to keep power, the legitimacy of which was based on, of course, the broad base of popular support in the late 1980s and early 1990s. But then, after 1993, it became more than obvious - this base had a populist nature. To stay in the Kremlin, Yeltsin was forced to "surrender" liberal economists and politicians who belonged to the first Gaidar government. The so-called "red directors", former managers of Soviet enterprises, the lobby of the military-industrial complex, security forces and all those who lost their positions and influence after the failed GKChP putsch in August 1991 gradually made up lost ground.

"It's all Chubais' fault!" - This famous cry of Yeltsin, with which he put all the blame for the failure of reforms in Russia on liberal economists from the first Gaidar government, meant that the first president of Russia ceased to support and guarantee democratic change in the country. Democrats became "democraps" and privatization became "grabbing". Communists, Zhirinovskiy's followers and nationalists became public opinion leaders.

The prominent Soviet and Russian sociologist Yuriy Levada, the founder of the All-Russian Public Opinion Research Centre (RPORC), wrote in the early 1990s that "freedoms came too easily to the

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<sup>63</sup> Известный публицист и литературовед Юрий Карякин скончался в Москве. 19.11.2011 <http://echo.msk.ru/news/831503-echo.html>

Russian people, they were not conquered, they were received, and therefore they will not keep them"<sup>64</sup>. However, this is also true for almost all the peoples of the former Soviet republics, except, perhaps, Georgia and the Baltic states...

The apotheosis of those days was the fantastically dramatic presidential campaign of 1996 when Yeltsin was re-elected for a second term with extreme efforts that entailed unprecedented financial costs worth tens of millions of dollars. At the beginning of those years, his rating was several times behind that of Russian Communist Party leader Gennadiy Zyuganov. Russian oligarchs were scared seriously by the prospect of the communists returning to power. Then the idea of "seven bankers" appeared - seven major Russian businessmen headed by Boris Berezovskiy teamed up and took extraordinary measures to prevent this. It is worth noting that those elections also cost Boris Yeltsin himself dearly - after the first round of voting, he suffered a heart attack, but it was the most terrible state secret in Russia...

Hilarious personal memories are connected with that time. In the spring of 1996, my wife and I were expecting a second child and were going to improve our living conditions. The owner of the apartment we were going to buy, a midlevel businessman, was in a panic and was hastily going to immigrate to the US as he was sure Zyuganov would win and the Soviet era would return again. However long I tried to convince him that the Kremlin would not allow Yeltsin to lose – I even bet a bottle of whiskey with him - he did not believe me. Curiously, he thus believed in fair and honest elections in Russia, because it seemed that most Russians were for Zyuganov. I won a bottle of whiskey, but never got it. My host left Russia before the elections...

Unfortunately, it was then that electoral technologies were used for the first time in the history of post-Soviet Russia. Their essence was unbridled propaganda and brainwashing, while elections themselves entailed large-scale fraud.

Thus, democracy began to give way to political expediency. At that time, the elections themselves were largely rigged in favour of Yeltsin. Today we know that the Western leaders in those years preferred to "not notice" blatant violations in the election campaign in Russia, making an unambiguous bet on Yeltsin and seeing him as a guarantee that communism would not return. But at the same time, the West had to put up with serious violations of democratic procedures, which explains the further condescending attitude towards the actions of the Kremlin under Putin. One day, being almost a vassal of oil and gas supplied to Europe by Moscow in Soviet times, they, unwillingly or not, relied on the stability of the ruling regime in Russia to a much greater extent than on support for democratic reforms there.

Memories that one of the members of the leadership of Kazakhstan once shared with the author about his conversations with the patriarch of American policy, Henry Kissinger, seem typical in this regard. When he asked him to tell him what is happening in the country and heard in response that they are "building democracy", Kissinger stopped his Kazakh interlocutor with the words: "If you are doing it because you think that we, Americans, expect this from you, you are wrong, for America the most important thing is your stability..."

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<sup>64</sup> Памяти Юрия Александровича Левады ( сост. Т.В.Левада ), Москва,2011 <http://www.levada.ru/books/pamyati-yuriya-aleksandrovicha-levady><http://www.levada.ru/books/pamyati-yuriya-aleksandrovicha-levady>

## **Towards Putin's Autocracy.**

Assuming that the guru of American diplomacy and Nobel Peace Prize winner expressed what is an axiom for the vast majority of his Western colleagues, expressing which is considered politically incorrect, because it contradicts the idea of supporting democracy around the world, much of what is happening in the former Soviet space becomes easier to understand and explain.

After all, why not admit that the Cold War was a great time for world politics. There were two ideological camps that observed the immutable rules of the game, the certainty of which was based on the policy of nuclear deterrence. Everything was clear and understandable. The red lines of spheres of influence, which were drawn on the globe after World War II, were first confirmed by the creation of the UN and then, the 1975 Helsinki Conference on Security and Cooperation, approving seemingly the postwar borders in Europe once and for all, became a major part of the generally-accepted catechism of international relations. There were, of course, upheavals, the first of which was the war in Korea in the early 1950s. Then the Berlin crisis, the events in Hungary in 1956, the Prague Spring of 1968, the American war in Vietnam, the Soviet intervention in Afghanistan, the emergence of "Solidarity" in Poland ... Yet, one way or another, the two opposing world camps, "world imperialism" and "the socialist system" led by the US and the USSR, tried not to lead conflicts to a full-scale clash threatening with nuclear war.

Both sides were in a kind of hostile combat, avoiding the use of choking methods against each other. And why would they do it, after all, by the end of the 1970s, Europe began to get addicted to the Soviet oil "injection" and there was no reason for the Old World to get rid of it.

This fact explains much of the strange and unpleasant reaction of the West faced by Russian democrats, who came to power in the early 1990s: they did not get Western support, which was vital to the success of socially dangerous and difficult economic reforms, to the necessary extent. Meanwhile, such assistance could be a reliable airbag for Yeltsin and his team and, who knows, maybe it would not have allowed the bloody tragedy of the civil war in Moscow in October 1993. The Western leaders relied on Gorbachev and treated Yeltsin suspiciously, seeing him as a dangerous populist whose actions could undermine the stability of the established world system and the energy security of Europe. Many ministers of the Gaidar government recall this bitterly in the collection of conversations with each other, which is extremely important for future historians ("Revolution of Gaidar", Moscow, 2012).

I think that we, in Russia, still feel the echoes of the reaction of the West, because had it not been for the sad failures of Gaidar's reforms, which resulted in the defeat of the above-described democratic procedures in 1996 and the further extinction of the political charisma of Boris Yeltsin, which occurred against the background of the terrible war in Chechnya, Vladimir Putin would not be in the Kremlin...

And this is how 14 odd years later, Putin himself assesses the level of democracy in Russia and his role in this:

"We have no regime associated with a particular person, including the incumbent president. We have absolutely standard democratic government institutions," the head of the Russian state said on 4 June 2014 in an interview with French journalists on the eve of his departure to France to celebrate the 70th anniversary of the landing of the Allies in Normandy.

A former adviser to Putin, his Sherpa on Russian membership of G8, Andrey Illarionov, who became one of the harshest critics of the Russian president after his resignation, commented on this statement as

follows: "During the presidency of Vladimir Putin, Russia moved from the category of semi-free (semi-democratic) countries, as it was in 1999, into the category of non-free, and most recently – into the category of rigidly authoritarian countries. Over the last 10 years alone (2003-2013), the index of civil liberties and political rights (ICLPR) calculated by Freedom House for Russia decreased from 42 to 26.

For comparison:

- *Exemplary (standard) democratic (free)* countries are those in which the corresponding values of ICLPR are 100 or close to 100
- *Free* countries are those in which respective index values range from 100 to 70
- *Semi-free* countries are those in which corresponding index values range from 70 to 34
- *Non-free* countries are those in which respective index values are below 34.

The ICLPR value for Russia (26) is approximately two and a half times lower than the average value of the index equal to 65.

It should also be noted, Illarionov says, that some other countries, in particular, Afghanistan, Myanmar, Oman, Yemen and Rwanda have the same ICLPR indicators as Russia (26). It is also noteworthy that according to the latest figures, in the size of the ICLPR, Russia has already been overtaken, for example, by Zimbabwe, Qatar, Pakistani Kashmir, Djibouti, Angola, and 169 (out of the 209) countries and territories of the modern world."

Freedom House indices may be perceived as unfair and even offensive to Russia - indeed, is it possible to compare the situation here with Afghanistan and Myanmar? ... However, the matter is about a different thing - a trend that has become apparent in recent years: the level of freedoms in Russia is inexorably shrinking and the number of repressive laws passed by the State Duma, already dubbed a "mad printer", appears unprecedented. There is no need to enumerate these draconian measures of the Russian parliament against the health and livelihoods of their own citizens – from the Dima Yakovlev law or, in other words, the "law of scoundrels" banning Americans from adopting Russian children to the law on "foreign agents", which obliges NGOs receiving foreign funding to call themselves so.

Moreover, this tendency was noted long before the current events, the quick incorporation of the Crimea into Russia and the tragic events in south-eastern Ukraine, where local separatists who use tacit, and not only tacit, support from Moscow are fighting the government in Kiev.

The sanctions imposed by Western countries, more precisely, the promises to toughen the sanctions if Moscow fails to put pressure on separatists to stop their armed resistance, have led to serious image and economic losses for Russia. The conflict with Ukraine threw the country's solvency ratings 10 years back and there is a serious danger of a further decline in these ratings. The reason for such a catastrophic drop in ratings given to the Russian economy by rating agencies is the unprecedented outflow of capital from Russia and a sharp slowdown in economic growth. Higher growth is prevented by high corruption, poor adherence to the rule of law, the dominant role of the state in the economy and the unfavourable business climate, the rating agency Standard & Poor's says<sup>65</sup>.

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<sup>65</sup> Quoted by :Ольга Кувшинова и Юлия Орлова . У России нет перспектив ускорения роста экономики на ближайшие четыре года.Ведомости.Финансы. 28.04.2014. <http://www.vedomosti.ru/finance/news/25898991/rossiya-opustilas>

S & P sees no prospects for improving conditions for economic development during the next presidential term. "Russian political institutions remain relatively weak and there is a high degree of centralization of power. Protesters, the opposition, non-governmental organizations and representatives of the liberal political wing are under increasing pressure"<sup>66</sup>

### **The “Closed Minds”, Oil and Putin’s Policy.**

However, what is amazing is that amid the slowing economy, the ratings of Putin and Medvedev are growing steadily. In May 2014, two months after the "second takeover of the Crimea" by Russia, according to a poll by the Levada Centre, Putin's presidency was approved by 83 per cent of respondents, while in March it was 72 per cent. Experts are looking for the reason behind such an amazing phenomenon - the growing popularity of the government against the backdrop of the deteriorating economic situation - in psychology rather than in economics. They define the most common type of consciousness among Russians as closed and characterized by a tendency to dogmatism and unquestioning obedience to authority. New information is perceived by this type of consciousness only when it does not threaten our political views or the integrity of our worldview. Political scientist Maria Snegovaya calls it a trap of consciousness: "We find it difficult to abandon ideas (albeit false) that underlie our world outlook."<sup>67</sup>

This explanation helps explain the cause of the serious polarization of Russian society, which is happening against the background of the Ukrainian events. 83 per cent of those who are Putin's support base, as a rule, accept only the information that they draw from the official media, mainly television, which is now a propaganda mouthpiece. These resources offer a simple black-and-white picture of the world, "them and us", "friends and foes", "fascists and Bendera against Russians and Orthodox people", "America against Russia", etc. Such a division excludes the possibility of an unbiased approach based on analysis and respect for the law. The law here is political expediency and corporate solidarity. And instead of looking for errors in the development of the country and trying to form an alternative to it, the authorities are pushing society to searching for scapegoats.

Such a proposal usually finds absolute understanding in a society where the closed type of consciousness prevails: "Well, of course, it's all the Americans' fault." It is like a famous joke: in response to the statement that "it's all the Jews' and cyclists' fault!", just one question is heard: "Why the cyclists?". That is to say society is so ready to blame some "Jews" always and everywhere that it is ready to be surprised by only one thing - why are there cyclists among the culprits.

The closed type of consciousness is typical not only for Russian society, and today it is precisely the Russian leadership that has been able to turn it in its favour. Exploiting the old fears imposed on the Soviet and Russian population concerning the insidious "plans of NATO", which will immediately use the overthrow of President Yanukovich and Ukrainian turmoil and send NATO ships to the Crimean shores, Moscow led itself to the decision to take over the Crimea. That, of course, could not but cause the loudest echo in the world ever since the collapse of the USSR.

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<sup>66</sup> Ibid. <http://www.vedomosti.ru/finance/news/25898991/rossiya-opustilas>

<sup>67</sup> Мария Снеговая. Может ли целое общество попасть в ловушку сознания? Ведомости.ру, 02.06.2014 <http://www.vedomosti.ru/opinion/news/27226481/v-lovushke-soznaniya>

It would seem that we see Moscow's complete disregard for international law, which has always been the favourite theme of Moscow propagandists, and every imaginable and written agreement was violated in response to the strange events of 22 February when there was supposedly a coup d'etat in Kiev and President Yanukovych was forced to flee first Kiev, and then Ukraine ... However, only in Russia, where most of the population is characterized by the closed type of consciousness, did state propaganda manage to present such a violation of international law as the unconditional return of historical justice and the return of the Crimea in the bosom of the Russian world. The result: see above, Putin's approval ratings shot up to 83 per cent.

And the introduction of sanctions against Russia by the above procedure (America and in general, the West are to blame for all our troubles) leads to the consolidation of the majority of society around the leader. The latter, relying on this unprecedented support resulting from the fomentation of irrational fears of the external environment and in an effort to struggle with the outflow of capital and investment from the country, begins to pursue a policy of self-isolation, which, in turn, further contributes to this outflow. It turns out that no one is able to break this vicious circle.

A long-term consequence of this policy of the Russian authorities and, at the same time, the result of Western efforts to get rid of energy dependence on Moscow, according to optimistic estimates by some analysts, could be an innovative breakthrough and structural modernization of the Russian economy. However, these hopes are generally expressed by economists and political scientists loyal to the Kremlin, and not only Russian ones. In the West, the Russian leadership has a significant number of extreme right-wing and left-wing politicians as allies, and the most striking of them is Marine Le Pen, daughter of the famous French nationalist Jean-Marie Le Pen.

There are many more sceptics on this score. Here is what the famous Russian political scientist and head of the research centre for ideological processes at the Institute of Philosophy of the Russian Academy of Sciences, Aleksandr Rubtsov, writes: "The country falls out of history, and this time fatally. The world evolves in one direction and Russia in another. At the beginning of the century, they were talking about modernization and getting out of the resource-based routine - now even these words, reminiscent of what makes the world modern and what poses an obvious civilizational challenge to Russia, are disappearing.... A responsible vision of the future requires a different system of values: freedom, independence of consciousness, personal responsibility and the ability to act, the emancipation of a person from the suggestible and obedient mass and protection of private spaces from communal and state encroachments. The issue is not even about absolute values, but about what is the condition for getting out of the impasse ... And vice-versa, the curtailment of freedom and initiative and the persecution of dissent - all this is simply destructive. This is a way not even to historical slippage, but to a national catastrophe."<sup>68</sup>

What the catastrophe may be, one can imagine from a number of sociological studies of Russian society conducted long before the Ukrainian events. Their results show that the institution of private property in Russia is not recognized as legitimate by an absolute majority of the population. The reason for this is the injustice and opacity of mortgage auctions of the mid-1990s, which became the basis for the fabulous wealth of a significant number of Russian oligarchs and major businessmen. Such illegitimacy of private property is a latent threat of new socialist-style redistribution of property in Russia, in other words, a new revolution.

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<sup>68</sup> Александр Рубцов. От государственной культуры к культурному государству. Vedomosti.ru, 16.05.2014<http://www.vedomosti.ru/opinion/news/26569751/kulturnoe-gosudarstvo>

The Russian particularity is obtained ownership of some natural resources. According to a study conducted by the European University in St. Petersburg, in resource-dependent economies such as Russia, ownership of natural resources is eventually redistributed to the elite, leading to a more rapid and sharp increase in inequality in society, compared with the economies, the structure of which is well diversified. The dean of the Faculty of Economics at the European University Maksim Buyev indicates that this theoretical conclusion is supported by recent studies of the bank Credit Suisse, according to which Russia leads the world in terms of wealth inequality. Now in our country, 110 people control 35 per cent of national wealth.<sup>69</sup>

This fact is thrown into Russian public space from time to time as required by spin doctors who have received another order to discredit the democrats, who, they say, "ran" Russia in the 1990s, stole a lot, and are now striving for power again. No wonder that in recent years, a strong stereotype has developed in Russian society about the harmfulness of both democracy and democratic values for Russia.

If before the current events around Ukraine there was virtually no room in Russian public discourse for discussion about the place of democracy in the development of the country (we remember how "successful" the exquisite slogan of the former chief Kremlin ideologist Vladislav Surkov about "sovereign democracy" was among the educated public), in the post-Crimea situation - only an absolute cynic or the head of state (see above) can seriously talk about democracy in Russia. Of course, this does not mean that in Russia there is no place for democrats or even liberals. They have their own place. But in the near future, they will have no place in the political process and, especially, in systemic access to state media and television. The political system in Russia is becoming increasingly autocratic in nature and there are no real politicians left in the country, while all decisions are taken by only one person.

## **Conclusions.**

In this situation, hope for the emergence of influential political opposition to the current regime in Russia in the short term looks like a starry-eyed dream. The protest movement is also in a state of fatigue, and the sociological reasons for this are described above. Western support in such a situation will be effective and useful if it is not directed towards the opposition, but is aimed at protecting the fair trial, freedom of the media and other democratic values, independent NGOs...

We must understand that now and in the near future, there can be no political process in the country, and there is only "digestion" of nationwide unity in honour of reviving the glory of the "Russian world", which, in turn, can lead to autarchy and a return to the most archaic forms of social life. A symbol of the turn in this direction can be the amazing response of President Putin to a question asked in France by a World War II veteran about the possibility of renaming Volgograd Stalingrad. The Russian president left the matter to residents of the region itself. In the current Russian tradition, this may mean that the Kremlin is not against Stalingrad, but disclaims any responsibility for the possible name change.

On the other hand, the cynical (de-Stalinization was not carried out to the very end and crimes of Stalinism, which claimed the lives of tens of millions of our countrymen, did not become a "vaccine"

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<sup>69</sup> Максим Буйев Путь к патриархальному капитализму 19 века. Vedomosti.ru 02.06.14  
<http://www.vedomosti.ru/opinion/news/27226521/vozvraschenie-viktorianskoj-epohi>

against possible new repression) raising of a new topic for public debate is only an attempt by the authorities to divert attention from the Ukrainian theme and turn public interest in another direction...

Such explicit manipulation of public opinion in the current Russian conditions can be confronted only by consistent and long-running work to educate a new generation of thinking Russians able to withstand the lies and stagnation of the ruling regime. It is precisely this generation that grew up with "Putin in the head" that can throw him out of there by sheer will and intellect. It is this generation that can become the broth from which new real political opposition will emerge in Russia and which will be able to create an alternative to the current regime without its violent overthrow, because another Russian riot, horrible, bloody and ruthless, will once again throw Russia many decades back at best to the margins of civilization and at worst, put an end to the history of Russia as an integral state.

**Jeyhun Veliyev.**

## **Oil and Democracy Conundrum: U.S. - Azerbaijan Relations**

### **Introduction**

In its official statement on the last presidential elections held in Azerbaijan in October, 2013 the U.S. Department of State confirmed critical remarks by the OSCE/ODIHR and OSCE Parliamentary Assembly on preliminary results of the elections. U.S. Department of State agreed with the procedural irregularities observed including ballot box stuffing, serious problems with vote counting, let alone the maintenance of a repressive political environment up to the elections day by the government of Azerbaijan.<sup>70</sup> Nearly ten years ago, similar statement about the presidential elections of October, 2003, was released by U.S. Department of State agreeing with the critical, although less harsh, assessments of the OSCE. It was then noted in the statement that the election process fell short of international standards in which problems with voter lists, cases of coercion, and violent clashes after election were observed<sup>71</sup>. Identical statements were released by western countries including the U.S. in all presidential and parliamentary elections held in Azerbaijan especially in the last decade. Particularly, the last parts of the press releases regarding the elections are usually summed up with statements urging the government of Azerbaijan to remain committed to international obligations and respect the rule of law and freedoms.

These statements have apparently remained as a part of the U.S. rhetoric of democracy promotion in Azerbaijan. It has become a trend that despite of all falsifications and other irregularities observed and confirmed by international election observation missions, the U.S. government always recognizes the outcome of the elections, and continues cooperating with Azerbaijan in fields of energy and security through bilateral and multilateral ties. The U.S. Ambassador to Azerbaijan, Mr. Morningstar commented on the statement made by the U.S. Department of State on the last presidential elections that although the U.S. government stands by the statement made after the elections, “it does not question the outcome of elections”, and the U.S. is looking forward to working with the President Ilham Aliyev<sup>72</sup>. This commentary made by the Ambassador once more proves that at the end of the day, more pragmatic approach of continuation of strategic partnership with semi-authoritarian regime ruling Azerbaijan casts more significance than that of democracy promotion.

In short-term, the strategic interests of the U.S. can be best met by continuing the political and economic partnership with Azerbaijan for the latter’s energy resources and geostrategic location overshadows importance of a type of regime that rules the country, as long as it is willing to cooperate with the partner. However, in long-term the establishment of democratic institutions and cooperation with a democratically

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<sup>70</sup> Press Statement by U.S. Department of State about Azerbaijan Presidential Elections. Retrieved from: <http://www.state.gov/r/pa/prs/ps/2013/10/215283.htm> Last accessed on March 22, 2014.

<sup>71</sup> Press releases. U.S. Embassy Statement on Elections. Retrieved from: <http://azerbaijan.usembassy.gov/pr101703.htm> Last accessed on March 22, 2014.

<sup>72</sup> Interview with the U.S. Ambassador to Azerbaijan (October, 26, 2013). The U.S Ambassador to Azerbaijan: “Our statement does not question the outcome of the election”, APA TV. Retrieved March 22, 2014 from <http://en.apa.az/xeber-us-ambassador-to-azerbaijan-our-stat-201768.html>

elected government would ensure more sustainable relations with Azerbaijan. The main purpose of this research is to assess from a critical perspective the challenges, which the U.S. Azerbaijan relations are facing from the perspective of democracy promotion. Is it the matter of priorities in these relations? Also, the flow of financial aid provided by the U.S. government through its internationally active institutions, such as US Agency for International Development (USAID) is being mainly projected on to the hands of the government of Azerbaijan, which might reduce sharply the possible effective impact of democracy promotion assistance. In this research, the subject will be the analysis of the relations between U.S. and Azerbaijan, and the relationship between the structure (political system) and agencies (political institutions).

### **Type of Regime in Azerbaijan.**

During a decade of rule Heydar Aliyev built up a system that halted the democratization process that was initiated in Elchibey period, and aimed to strengthen one man-one party rule in the country. Ayca Ergun writes: “After his [Aliyev] coming to power Azerbaijan’s political transformation faced numerous hurdles due to anti-democratic practices in elections, repression of the opposition, consolidation of one-man rule, bribery, corruption and regionalism. The change of regime and its replacement by Aliyev signified a step back towards the past. Nevertheless, it did not lead to restoration of Soviet type authoritarianism”<sup>73</sup>. Hence, this system in Azerbaijan established by Heydar Aliyev can be then called semi-authoritarian rule, which has a mixture of authoritarianism and certain democratic principles. However, democracy and freedom would be maintained or let spread to an extent that would not let opposition become quite strong causing challenge to the rule of Aliyev. Marina Ottaway studies Azerbaijan as an ample case of semi-authoritarianism saying that Azerbaijan has formally democratic system, with a constitution respecting civil and human rights. However, the reality gives a quite different picture because the regime organizes multiparty elections, but effectively reduces the competition, allows operation of the so-called free media, yet party aligned press dominates the flow of information. In addition, the state no longer controls all economic assets, but it controls oil and gas industry, the major source of revenues, while the political elite around Aliyev holds grip on other important business areas, and all this rightly fits this country in a profile of semi-authoritarian regime.<sup>74</sup> As she rightly predicted, Heydar Aliyev prepared his son Ilham Aliyev to succeed him as a president. This occurred actually in 2003 as a result of presidential elections, which was marred with serious falsifications.

It has been already another decade passed by that Ilham Aliyev is ruling Azerbaijan, and the transition to democracy process, respect for human rights and freedoms, bribery and corruption have turned to be even worse. Some scholars call it an establishment of a dynastic rule in Azerbaijan as the father handed the political power to his son with no sign or will of significant democratic reforms. Farid

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<sup>73</sup> Ergun, A. (2005). “Democratization from Below: The Role of Civil Society in Azerbaijan”, in Gunes-Ayata, A. et al., (eds). Political Culture and Civil Society in an Unstable Region. New York: St Martins Press.

<sup>74</sup>Ottaway, M. (2003). “Azerbaijan: The Semi-Authoritarianism of Decay” in Democracy Challenged: the Rise of Semi-Authoritarianism, Carnegie Endowment for International Peace, Washington DC: The Brookings Institution Press.

Guliyev argues that Azerbaijan can be described as sultanistic semi-authoritarian regime as it has intrinsic characteristics of two, such as dynastic succession of political power from father to son amalgamated with weak civil society, repressed opposition, partly free media and other peculiarities of semi-authoritarianism<sup>75</sup>.

In 2003, Ilham Aliyev was elected as a president of the country after the fraudulent and strictly controlled elections. Observers noted serious facts of falsifications, especially great number of ballot box stuffing during the elections, and gross human rights violations and ruthless campaign of repression against protestors, activists and supporters of opposition parties who did not accept the outcome of the elections<sup>76</sup>. The same procedure of falsifications, human rights violations, and repression against oppositionists have been further continuing and even becoming worse despite of critical appraisals by western observing institutions. Amnesty International Report for 2013 writes that freedom of assembly, expression and association are highly violated in Azerbaijan, so the human rights defenders and journalists have been targeted for their work and subjected to arrest and intimidation, civil society actors working on human rights and democracy faced pressure, whereas public protests continued to be banned in the center of Baku, and punishments increased on “unauthorized” protests due to amendments made to the Criminal Code in last November<sup>77</sup>. In addition, the U.S. Country Reports on Human Rights Practices for 2013 prepared by U.S. Department of State analyzes the last year being observed with “increased restrictions on freedoms of expression, assembly, and association”. “Flaws in the conduct of the October 9 presidential election included a repressive political environment”, “significant shortcomings throughout all stages of election-day processes”, and “unfair administration of justice, including increased reports of arbitrary arrest and detention, politically motivated imprisonment, lack of due process and executive influence over the judiciary<sup>78</sup>. Imprisonment of youth activists based on various alleged accusations has become a usual habit of the repressive government nowadays. The very last group of such activists was jailed a year ago because of their protests against government, which was acclaimed by the regime as attempts at damaging public property, causing domestic instability and violence. The court sentenced all of them to 7-8 years of imprisonment last week after months of trials<sup>79</sup>.

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<sup>75</sup>Guliyev, F. (2005). “Post-Soviet Azerbaijan: Transition to Semiauthoritarianism? An Attempt at Conceptualization, Demokratizatsiya: The Journal of Post-Soviet Democratization, Vol. 13, No. 3, pp. 393-435

<sup>76</sup> Whelan, S. (October, 2003). Azerbaijani presidential election fixed with the approval of Bush and Putin. World Socialist Web Site. Retrieved May 14, 2014 from <http://www.wsws.org/en/articles/2003/10/azer-o30.html>.

<sup>77</sup> “Azerbaijan-Annual Report 2013. The State of the world’s human rights”. Amnesty International. Retrieved MayMay 13, from 2014 <http://www.amnesty.org/en/region/azerbaijan/report-2013>.

<sup>78</sup> “Country Reports on Human Rights Practices for 2013-Azerbaijan”. Bureau of Democracy, Human Rights and Labor. U.S Department of State. Retrieved May 11, 2014 from <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2013&dld=220255#wrapper>.

<sup>79</sup> “Azerbaijani Youth Activists Sentenced, Supporters Clash with Police”. (May, 2014). Radio Free Europe. Radio Liberty. Retrieved May 10, 2014 from <http://www.eurasianet.org/node/68345>.

Moreover, the current regime has resources now to play a rent-seeking policy, and its economy is booming and boosting thanks to the major oil revenues flowing to the budget since mid-2000s after oil and gas pipelines started to operate that deliver energy resources to European and world markets. For instance, GDP per capita has gone up seven fold since 2004 according to the World Bank...but material progress has come at a cost of rigged elections and suppression of internal dissent<sup>80</sup>. It should be stressed that informal institutionalism which was established by father Aliyev has been further fostered by flowing oil money<sup>81</sup>. Actually, there is a tendency of merger of political and economic power in Azerbaijan, which usually happens when there are strong indicators of corruption, centralized state system in hands of a group of people who are represented in government and simultaneously run business in important spheres<sup>82</sup>.

In a nutshell, the transition process that started in Azerbaijan had a reverse effect, meaning that establishment and strengthening of democratic system never happened in Azerbaijan since after 1993, the date that Aliyev acquired power. Instead, Azerbaijan has been ruled by ruthless measures aimed at further perpetuating the authority of the regime for a long time to come. It was observed in the fact that father Aliyev handed the rule to his son through elections that was non-democratic. To a certain extent, as mentioned at the beginning of this section that some level of freedom has been given to oppositionist social and political forces to resist the current regime, but the space has been given just enough to keep these forces inept and incapable. Hence, semi-authoritarian in nature, Azerbaijan's political system has been embedded with sultanistic system as well because of succession of power from father to son.

#### **Azerbaijan and U.S. in partnership triangle: security, energy and democracy**

Diplomatic relations between U.S. and Azerbaijan have been established since the independence of the latter in 1991 when the Soviet Union collapsed. The early 1990s is not characterized with high level of political relations and economic partnership between these two countries. Apparently, the U.S. preferred to stay out of Moscow's affairs with the countries in the region. In other words, it was too much to handle, in addition to the post-Communist Eastern Europe and Baltics that were released off the Soviet political influence. As Joe Barnes states, during especially the first term of the Clinton Administration Washington's emphasis was clearly on domestic developments in Russia, and Moscow's evolving post-Cold War relationship with Washington. This strategic choice was dubbed as "Russia First" policy associated with the then Deputy Secretary of State Strobe Talbott (Barnes, 1998, p.5). Apparently, U.S. preferred to stay out of problems concerning the newly independent countries in the former Soviet space. The relations between Azerbaijan and U.S. were not more than a formal recognition of its independence by the latter after official visit of the former Secretary of State James Baker to the Caucasus and Central

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<sup>80</sup> Azerbaijan and the Council of Europe. Do as we say, not as we do (May, 2014). The Economist. Retrieved May 13, 2014 from <http://www.economist.com/blogs/easternapproaches/2014/05/azerbaijan-and-council-europe?fsrc=scn%2Ftw ec%2Fdo as we say not as we do>.

<sup>81</sup> Leila Alieva "The Power in the Oil Rich State" In Democracy's Plight in the European Neighborhood. Struggling Transitions and Proliferating Dynasties ( eds.Michael Emerson and Richard Youngs), CEPS/FRIDE, 2009

<sup>82</sup> Soviet Legacies 22 years after: reversed or reinforced? (ed Leila Alieva) CNIS, Baku, 2013. <http://cnis-baku.org/eng/?p=1563>.

Asia in 1992<sup>83</sup>. Azerbaijan was even excluded from financial assistance directed to the former Soviet countries under the Freedom Support Act (FSA) program. What is FSA and why has it been a crucial impacting the relations between Azerbaijan and U.S.?

### **The Freedom Support Act and its controversy in regards Azerbaijan.**

Adopted in 1992, the Freedom Support Act was intended to help the people and governments of the newly independent states navigate the difficult transition from communism to democracy and market-based economies<sup>84</sup>. Section 907 of this Congressional Program restricted, however government assistance to Azerbaijan on claims that it was the aggressor state against Armenia in Nagorno-Karabakh conflict<sup>85</sup>. This amendment was pushed through Congress by the representatives and supporters of the U.S. Armenian lobby putting Azerbaijan into a different category from all its neighbors in its relations with the U.S.<sup>86</sup>. The restrictions made through Section 907 did not prevent non-governmental humanitarian assistance, for example via International Red Cross and Save the Children, but assuredly the governmental assistance could have had more positive impact. Actually, exclusion of Azerbaijan from the Program based upon such an argumentation does demonstrate the lack of knowledge, expertise and political information about the post-Soviet countries in U.S. political circles as it was Armenia that occupied internationally recognized territories of Azerbaijan. Moreover, according to Dan Morgan and David Ottaway, one of the BP officials Tom Hamilton who left BP to become Pennzoil's chief of worldwide exploration commented that Section 907 "was always a lever that they [Azerbaijani government officials] beat on you when nothing else was working". Therefore, the authors further state, American oil company representatives pressed administration officials to resolve the dispute between Armenia and Azerbaijan, and with Clinton's support, they also lobbied successfully in Congress to ease U.S. economic sanctions on Azerbaijan<sup>87</sup>. Consequently, provisions in FY 1996, FY 1998 and FY 1999 in legislation eased the prohibition by providing humanitarian, democratization and business related aid exemptions (Nichol, 2008, pp. 3-4). However, the exemption was not totally removed depriving Azerbaijan from significant portion of financial assistance on democracy promotion. Seemingly, easing the provisions for the above mentioned FYs was due to the process of increasing activeness of U.S. companies in oil industry and their pressure on the U.S. government to mild the political relations further.

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<sup>83</sup> Friedman, L. T (February 12, 1992), Baker Open Tour of the Caucasus. The New York Times. Retrieved March 24, 2014 from <http://www.nytimes.com/1992/02/12/world/baker-opens-tour-of-the-caucasus.html>

<sup>84</sup> Gordon, P & Rosenblum, D (September 21, 2012), The Freedom Support Act: 20<sup>th</sup> Anniversary. U.S. Department of State. Retrieved March, 23, 2014 from <http://www.state.gov/p/eur/rls/rm/2012/198152.htm>

<sup>85</sup> Welt, C (April 26, 2006), Azerbaijan and U.S. Foreign Policy. Commentary in Centre for Strategic and International Studies. Retrieved March 24, 2014 from [http://csis.org/files/media/isis/pubs/060426\\_ruseura\\_recommcwelt.pdf](http://csis.org/files/media/isis/pubs/060426_ruseura_recommcwelt.pdf)

<sup>86</sup> Hill, F (February, 2001), A Not-So-Grand Strategy: U.S. Policy in the Caucasus and Central Asia since 1991. Brookings. Retrieved March 24, 2014 from <http://www.brookings.edu/research/articles/2001/02/foreignpolicy-hill>

<sup>87</sup> Morgan, D & Ottaway, D (October 4, 1998), Azerbaijan's Riches alter the Chessboard. World Pipe Dream Special Report- Washington Post. Retrieved March 24, 2014 from <http://www.washingtonpost.com/wp-srv/inatl/europe/caspian100498.htm>

Furthermore, the energy issue earned significant weight in shaping the contours of relations between the two countries deepening the political ties and economic cooperation between the two countries by signing the “Deal of Century” in 1994. Yet the U.S. government did not completely waive Section 907 until 2002. The waiver was adopted only after 9/11 because “the war on terror” campaign announced by George W. Bush driving the U.S. to Central Asia increased geostrategic importance of Azerbaijan as an alternative transit route. As Jim Nichol shows, overflight rights, numerous landing and refueling operations were granted by Azerbaijan in support of U.S. and coalition forces’ operations in Afghanistan (Nichol, 2013, p.28). In addition, when we look at the criterion on the extension of waiver of Section 907 that was published by White House Press Release<sup>88</sup>, it can be easily noticed that none of the criteria mention the necessity of democracy promotion, spread of democratic values and protection of human rights, but rather the emphasis is put on the cooperation on war against terrorism and security issues. Since 2002, there has not been observed any serious downward spiral in relations in the sphere of security. Azerbaijan has even become one of the three routes for the Northern Distribution Network in the delivery of logistical and humanitarian assistance to Central Asia. For two terms, the Bush Administration ran a foreign policy, which officially addressed democracy promotion as one of the priorities in its foreign policy agenda. In President Bush’s 2004 State of Union Address, it is emphasized by him that the efforts by the U.S. government fostering democracy in the Middle East should be doubled, and the National Endowment for Democracy will receive twice more of the government financial assistance for democracy promotion<sup>89</sup>. However, the deeper look at statistics reveals the other trend. According to the Congressional Research Service prepared by Curt Tarnoff, assistance to democracy (8.7%) and economic and social development (43.5%) comprised together approximately of half (52%) of the total U.S. assistance in FY 1995. However, a decade later statistics for FY 2005 indicate that the percentage share for democracy promotion increased by a bit over 6 percent threshold, whereas, economic and social development assistance shrank down to 14 percent, nearly a 30 percent reduction, and instead, security assistance increased around 3 times being nearly 67 percent (Tarnoff, 2007, p.2). The increasing assistance on security matters is understandable taking into account the war on terror and necessity of funding to embolden the alignment with the former Soviet countries. The above shown fact demonstrates the difference between rhetoric and reality in U.S. dedication to assisting the democratic and economic development in FSU.

### **Rhetoric vs Reality**

As a manifestation of a rather rhetorical commitment of the Bush Administration to democracy promotion and contrary to expected pressure on the government of Azerbaijan to open up political system, the strategic cooperation was drawn to the forefront of relations between the two countries. The hard-power relations gained more dominance shaping the major framework of relations between Azerbaijan and U.S. OSCE/ODIHR EOM Report summarizes the assessment of the Presidential elections of October, 2003 that it failed to meet OSCE commitments and other standards for democratic elections, and widespread intimidations, falsifications and violations occurred respectively in pre, during and post-elections periods (OSCE/ODIHR EOM Report, 2003, p.1). U.S. had sent mixed messages about the election process and brutal handling of protests by the government in post-election period. In a Human Rights Watch (HRW) report dating back to January, 2004 it is indicated that Deputy Secretary, on October 17, Richard

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<sup>88</sup> White House Press Release (December 30, 2003), Extension of Waiver of Section 907 of the FREEDOM Support Act with Respect to Assistance to the Government of Azerbaijan. U.S. Department of State. Retrieved March 24, 2014 from <http://2001-2009.state.gov/p/eur/rls/prsr/2003/27664.htm>

<sup>89</sup> Text of President Bush's 2004 State of the Union Address (January 20, 2004). Washington Post. Retrieved March 25, 2014 from [http://www.washingtonpost.com/wp-srv/politics/transcripts/bushtext\\_012004.html](http://www.washingtonpost.com/wp-srv/politics/transcripts/bushtext_012004.html)

Armitage phoned and congratulated President Ilham Aliyev noting his “strong showing” on being elected as the president. He especially stressed on the U.S. interest in continuing to work closely with Azerbaijan (HRW Report, 2004, pp. 52-53). The Washington Post, referring to the message of the call, summarized the outcome of the elections and the relations between Baku and Washington as follows: “in effect, the baby dictator and his dad were congratulated by a top official for their effectiveness in stealing votes and were promised smooth sailing in Washington”<sup>90</sup>. The U.S. Embassy to Azerbaijan issued a statement on elections indicating few irregularities and urged the government to fulfill its duties for the safety of its citizens<sup>91</sup>, which came public in October 17, a bit later after the phone call mentioned above. Furthermore, U.S. State Department spokesperson Adam Ereli made a statement about the outcome of the 2003 presidential elections that his [Aliyev’s] performance was a fact. That is recognition of an objective fact”<sup>92</sup>. Hence, it was indeed a “strong” performance of the president that completed the dynastic regime formation process, which was praised by Adam Ereli, the official spokesperson for U.S. Department of State. The representatives of various NGOs and opposition political parties, referring mainly to U.S., expressed their disappointment that oil companies and their states preferred the current regime instead of a regime change (Soedergren, 2004, p.4). The U.S. government openly and actively supporting the regime changes in Georgia and Ukraine, but standing still in regard with Azerbaijan, angered the opposition groups and political parties. Similar trends were observed during the parliamentary elections in November, 2005. As a consequence, it sharply reduced the effective mobilization of opposition who was truly motivated by changes taking place in neighboring post-Soviet countries. Such misperceptions among opposition forces were not without any grounded reasons.

Hence, when George W. Bush visited Georgia in spring, 2005, he made a strong statement that the revolutionary spirit brought regime changes in Ukraine and Georgia in 2003, and the suit will be following in the other Caspian states as well<sup>93</sup>. In addition to this, in pre-election period the U.S. government through official channels, sought to exert some pressure on Aliyev’s regime to sign for democratic reforms, but to no avail. For instance, U.S. officials, such as Condoleezza Rice, Secretary State in the Bush Administration and Assistant Secretary State, Daniel Fried stressed about the importance of free and fair elections in Azerbaijan. Also, U.S. Department spokesperson Sean McCormack urged the government of Azerbaijan to quickly implement changes allowing peaceful freedom of assembly<sup>94</sup>. Subsequently, the opposition forces were highly inspired by active role taken by

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<sup>90</sup> “A Strong Performance” (October 22, 2003), Washington Post. KUB. Retrieved March 28, 2014 from <http://www.http.kub.info/article.php?sid=4712>

<sup>91</sup> U.S. Embassy Statement on Elections (October 17, 2003), Press Releases 2003. U.S. Department of State. Retrieved March 23, 2014 from <http://azerbaijan.usembassy.gov/pr101703.html>

<sup>92</sup> Whelan, S (October 30, 2003), Azerbaijani presidential election fixed with the approval of Bush and Putin. World Socialist Web Site. Retrieved March 27, 2014 from <http://www.wsws.org/en/articles/2003/10/azer-o30.html>

<sup>93</sup>Khachatrian, H & Ismail, M.A (June 09, 2005), Sizing up the 'Bush effect' in Armenia and Azerbaijan. Reliefweb. Retrieved March 26, 2014 from <http://img.static.reliefweb.int/report/armenia/sizing-bush-effect-armenia-and-azerbaijan>

<sup>94</sup> U.S. Welcomes Azerbaijan's Steps To Ensure Integrity of Elections (October 26, 2005). United States of America-Embassy. Retrieved March 25, 2014 from <http://iipdigital.usembassy.gov/st/english/texttrans/2005/10/20051026182312xlrennef0.306831.html#axzz30ILitJ00>

the U.S. in revolutions in Georgia and Ukraine, and even opposition leader Isa Gambar addressed President George W. Bush that the latter should increase the pressure on the government of Azerbaijan confirming his commitment to the statements made in his second inaugural speech. He further said: “We want support from the United States for the democratic process”<sup>95</sup>. However, Henry Meyer of Associated Press emphasizes that the tone of treatment of Azerbaijan by the Bush Administration has been softer than the Ukraine, about which Bush made more direct statements stressing on possible punitive measures if the elections were not handled fairly<sup>96</sup>.

In addition, the statements and critical feedback about mishandling issued by U.S. Department of State and other officials were not followed by any specific measures and steps to force the government pursue more effective democratic reform policies. In Human Rights Watch Report, it is stated that despite rhetorically the U.S. official statements suggested, in fact U.S. has not established or supported establishment of an investigative commission to address the mishandled cases during the parliamentary elections in 2005 (HRW Report, 2004, p. 53). As Leo Platvoet, head of the mission to Azerbaijan from Council of Europe states, it has been a disappointment that George W. Bush has chosen double-standards when it comes talking about democracy in Azerbaijan<sup>97</sup>. Further related to this context, we can also notice a sharp contradiction in policy statements made by various U.S. government agencies and President Bush himself, respectively before and after Ilham Aliyev’s visit to the White House in April, 2006. According to the 2006 Country Reports on Human Rights Practices published by the Bureau of Human Rights, Democracy and Labor of U.S. Department of State, the human rights record of the government remained poor, continuing to commit serious abuses<sup>98</sup>.

Despite this, when the presidents met in April, 2006, President Bush praised the leadership of Ilham Aliyev on leading citizens of his country towards democracy, to which the former referred as “the wave of future”<sup>99</sup>. As Washington Post writes, during George W. Bush meeting Ilham Aliyev, some Administration officials allowed oil and military considerations to supersede Bush’s goal of advancing

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<sup>95</sup> “Azeri Appeal” (September 27, 2005). Embassy Row. The Washington Times. Retrieved March 28, 2014 from <http://www.washingtontimes.com/news/2005/sep/27/20050927-101528-7316r/>

<sup>96</sup> “Democracy News. Azerbaijan in Context”, Council for community of Democratic States. Retrieved March 24, 2014 from [http://www.ccd21.org/news/context/az\\_general.html](http://www.ccd21.org/news/context/az_general.html)

<sup>97</sup> “Bush’s ‘double standards’ attacked” (December 02, 2005). Aljazeera. Retrieved April 15, 2014 from <http://www.aljazeera.com/archive/2005/12/2008410151039523235.html>

<sup>98</sup> Bureau of Democracy, Human Rights, and Labor 2006-Azerbaijan (March 6, 2007), U.S. Department of State. Retrieved March 25, 2014 from <http://www.state.gov/j/drl/rls/hrrpt/2006/78801.htm>

<sup>99</sup> President Bush Welcomes President Aliyev of Azerbaijan to the White House (April, 2006). The White House. Retrieved March 25, 2014 from <http://georgewbush-whitehouse.archives.gov/news/releases/2006/04/20060428.html>

democracy around the world<sup>100</sup>. Obviously, the primary objective of and significance for the U.S. government to meet President Aliyev was to guarantee Azerbaijan's logistical support in possible military operations against Iran<sup>101</sup>; in addition to oil business and cooperation on the "war on terror". To respond to the critiques, Deputy Assistant Secretary Bryza (who was also the U.S. ambassador to Azerbaijan for a year) stated: "just because Azerbaijan hasn't gone as far as we would like on democracy doesn't mean we are going to ignore our energy interests or our military interests"<sup>102</sup>. Ideally, the most viable opportunity for the West, including the U.S. to pressure the government of Azerbaijan to carry out significant reforms accelerating democratic transition was the time period from mid 1990s till mid-2000s. It is when Azerbaijan started receiving significant flow of oil revenues from exporting via Baku-Tbilisi-Ceyhan oil pipeline. Yet in 2005, while assessing the post-Parliamentary situation in Azerbaijan as well as referring to 2003 Presidential elections, Leila Alieva states that the West lost the opportunity to influence the government to change its course by carrying out effective democratic reforms starting with 2006, Azerbaijan would have been receiving "the major inflow of oil revenues" (Alieva, 2006, pp.11-12).

### **The President Obama Period: Relations Cooled.**

The Obama Administration seemed to have more pressure on human rights issues on the government of Azerbaijan, but the official condemnation has not been damaging the relations to a significant level especially in military-security cooperation, such as termination of Azerbaijani mission to Afghanistan. Azerbaijan still sees U.S. as the main balancer against the Russian influence in the Caucasus, especially in mediation efforts on resolution of the conflict between Armenia and Azerbaijan. In addition, in background of the crisis in Ukraine, Azerbaijan demands more committed approach from Western countries to address the Nagorno-Karabakh conflict. Therefore, Azerbaijani officials criticize the West having extremely much paid attention on human rights issues, thus missing out geopolitically critical case in Eurasian hemisphere. Last year in May, former senior aides to President Barack Obama and few other U.S. officials attended an event organized by oil companies in Baku, with the goal of "another opportunity to discuss and expand the strong relationship between two nations based on shared interests and mutual respect"<sup>103</sup>. It demonstrates U.S. unwillingness to strain its affairs with Azerbaijan in security and energy spheres despite raising human rights violations, banning of freedom of expression, restricting the activities of civil society agencies receiving funding from foreign sources. Moreover, Barack Obama sent a congratulations letter to President Ilham Aliyev after the elections in October, 2013 for his third-time election as the president of Azerbaijan. President Obama stressed that to establish the full potential for cooperation and partnership between Azerbaijan and the U.S. the former is hoped to strengthen the democratic processes<sup>104</sup>. However, increasing authoritarian tendencies against civil opposition by the

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<sup>100</sup>Hilzenrath, S. D & Graham, B (April 28, 2006), "Bush to Receive Azerbaijan's Leader". The Washington Post. Retrieved April 22, 2014 from <http://www.washingtonpost.com/wp-dyn/content/article/2006/04/27/AR2006042702215.html>

<sup>101</sup> Whelan, S (April 26, 2006). Bush courts Azerbaijani president as part of build-up against Iran. World Socialist Web Site. Retrieved March 25, 2014 from <http://www.wsws.org/en/articles/2006/04/azer-a27.html>

<sup>102</sup> "Caucasus: U.S. says Aliyev, Kocharian must show 'political will'"(June 23, 2006), Radio Free Europe. Radio Liberty. Retrieved April 24, 2014 from <http://www.rferl.org/content/article/1069418.html>

<sup>103</sup> Eric, L (May 31, 2013). Ex-Obama Aides Attended Oil Industry-Sponsored Azerbaijan Conference. TPM (Talking Points Memo). Retrieved March 24, 2014 from <http://talkingpointsmemo.com/muckraker/ex-obama-aides-attended-oil-industry-sponsored-azerbaijan-conference>

government of Azerbaijan does not have any serious reverse causal relationship with the continuing cooperation and partnership between the two countries on strategic issues that matters obviously more for both governments. It should however be underlined that the pressure of the U.S. government on Azerbaijani elite to improve on human rights has comparably been more sounding during Obama's presidential terms. This has negatively affected the relations increasing the tone of critiques from each side. Obama has been the first U.S. president putting Azerbaijan on the same level with Zimbabwe criticizing human rights issue. In respond to this, Azerbaijan has stopped joint military exercises<sup>105</sup>. Moreover, the government became unwilling to continue cooperation with Peace Corps, and asked for Peace Corps not sending new volunteers this year. U.S. Ambassador to Azerbaijan, Richard Morningstar mentioned the fact that the Ministry of Education reviews its policies and only time will tell if the cooperation will be renewed between Azerbaijan and Peace Corps although the current volunteers' service will not be terminated<sup>106</sup>.

It can be an empirical fact to argue that Azerbaijani government rebuttals back by taking such measures to show its muscles against U.S. critiques of human rights violations and democratization trends in the country. Some analysts, on the one hand, argue that the withdrawal of the U.S. troops from Afghanistan and the on-going rapprochement between Iran and the U.S. reduce the geostrategic position of Azerbaijan making it no more vital spot for U.S. interests in the region<sup>107</sup>.

On the other hand, Frederic Grare states that the details of U.S. withdrawal have not yet been clarified between Kabul and Washington, and "the existence or lack of a U.S. presence in Afghanistan and the number of U.S. troops are two distinct issues" (Grare, 2014, p.5). Matthew Bryza, the former U.S. ambassador to Azerbaijan said that it would be unwise for EU and U.S. to write off Azerbaijan, instead to pursue the full-range of interests and values they share with this small, but strategically important country<sup>108</sup>. Stephen Blank recognizing the diminishing involvement or interest of U.S. in the Caucasus and Central Asia stresses that U.S. is better to tighten its ties with the FSU countries considering the increasing grip of Russia on Georgia and lately on Ukraine. He further points on the fact that cooperation on security issues should be on front page of relations between Azerbaijan and U.S., which, he argues, is a major precondition for the democratization process too (Blank, 2013, p.14). Cooling off relations between U.S. and Azerbaijan is not unobservable, but the state-of-affairs has never come to a critical point of complete break-up or even damaged to a serious level creating an impression of greater significance of cooperation in military/security and energy issues as compared to the issue of democracy promotion in the country.

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<sup>104</sup> Barack Obama: U.S. remains committed to deepening cooperation with Azerbaijan on common challenges (November 7, 2013). Trend News Agency. Retrieved March 25, 2014 from <http://en.trend.az/news/politics/2209139.html>

<sup>105</sup> Asgarov, K. Azeri Report. Retrieved April 25, 2014 from [http://azerireport.com/index.php?option=com\\_content&task=view&id=2216](http://azerireport.com/index.php?option=com_content&task=view&id=2216)

<sup>106</sup> U.S. Ambassador Morningstar Concerned with Peace Corps (April 16, 2014), Meydan TV Retrieved April 24, 2014 from <http://www.meydan.tv/en/site/news/1369/US-Ambassador-Morningstar-Concerned-with-Peace-Corps.htm>

<sup>107</sup> Minasyan, N (January, 18, 2014). U.S. interests in Azerbaijan, still vital? Panorama Am. Retrieved March 25, 2014 from <http://www.panorama.am/en/analytics/2014/01/18/us-azerbaijan/>

<sup>108</sup> Bryza, M (November 14, 2013), Don't write off Azerbaijan just yet, Special to CNN. CNN World Retrieved April 27, 2014 from <http://globalpublicsquare.blogs.cnn.com/2013/11/14/dont-write-off-azerbaijan-just-yet/>

Human Rights Watch World Report confirms the trend that international and regional institutions while expressing concern about human rights record, did not impose policy consequences or make their engagement with Azerbaijan conditional on concrete improvements<sup>109</sup>.

Lately, Azerbaijani government arrested a civil society activist, Hasan Huseynli<sup>110</sup> sentencing him for 6 years of imprisonment. The US Embassy made public an official statement in Baku on unfairly jailing another civil society activist<sup>111</sup>. However, yet another statement without real consequences for relations do not have any significant impact on altering or influencing the behavior or attitude of the government. Therefore, nobody takes it serious just remembering similar past experiences that have been lived through. One simple question to be asked is: if a country with high record of human rights violations assumes chairmanship of the Council of Europe for six months period (since May 14, 2014), what to expect from the West, including the United States in case of alleged imprisonment of civil society activists continue? Vugar Gojayev calls it travesty and European cynicism that a country which disdains core European values is now chairing the Council<sup>112</sup>.

### **Through the lens of international community: human rights in Azerbaijan**

If the overall record of human rights conditions and democratic situation in Azerbaijan is further assessed, the picture does not suggest any good and serious improvements on subject area. Human Rights Watch description of the situation dating back to September, 2013 states that there is observed dramatic deterioration of the government's record on freedom of expression, assembly, and association in the last year and a half<sup>113</sup>. The U.S. Country Reports on Human Rights Practices for 2013 prepared by U.S. Department of State analyzes the last year being observed with "increased restrictions on freedoms of expression, assembly, and association, repressive political environment, arbitrary arrest and detention and executive influence over the judiciary"<sup>114</sup>. Apparently, a report prepared by the U.S. government does not have any positive reflections about the overall human rights situation in the country, let alone the flaws

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<sup>109</sup> Azerbaijan-Human Rights Watch World Report 2013, Human Rights Watch. Retrieved March 23, 2014 from <http://www.hrw.org/world-report/2013/country-chapters/azerbaijan?page=3>

<sup>110</sup> Hasan Huseynli was pardoned by the decree of the president Ilham Aliyev of 17 October 2014 (by the time of the publication of this book).

<sup>111</sup> Statement of the US Embassy on the Hasan Huseynli Trial Outcome (July 14, 2014). Contact.az. Retrieved July, 15, 2014 from [http://www.contact.az/docs/2014/Politics/071400084126en.htm#\\_U85uIHko\\_IU](http://www.contact.az/docs/2014/Politics/071400084126en.htm#_U85uIHko_IU)

<sup>112</sup> Azerbaijan and the Council of Europe: A Crisis of Legitimacy (May 16, 2014), Azeri Report, Retrieved May 20, 2014 from [http://azerireport.com/index.php?option=com\\_content&task=view&id=4325&Itemid=48](http://azerireport.com/index.php?option=com_content&task=view&id=4325&Itemid=48)

<sup>113</sup> Azerbaijan: Crackdown on Civil Society. Dozens of Activists and Journalists Jailed, Restrictive Laws Adopted (September, 2013). Human Rights Watch. Retrieved March 27, 2014 from <http://www.hrw.org/news/2013/09/02/azerbaijan-crackdown-civil-society>

<sup>114</sup> Country Reports on Human Rights Practices for 2013-Azerbaijan, Bureau of Democracy, Human Rights and Labor. U.S. Department of State. Retrieved March 28, 2014 from <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2013&dld=220255#wrapper>

that took place during the Presidential Elections last year. Moreover, Amnesty International Report for 2013 writes that freedom of assembly, expression and association are highly violated in Azerbaijan, so the human rights defenders and journalists have been targeted for their work and subjected to arrest and intimidation, and civil society actors working on human rights and democracy faced pressure. Moreover, public protests continued to be banned in the center of Baku, and punishments increased on “unauthorized” protests due to amendments made to the Criminal Code in last November<sup>115</sup>. Freedom of assembly, expression and association being given as the most significant indicators of human rights and democracy has been grossly violated in the country.

Miriam Lansky, Director for Russia and Eurasia at the National Endowment for Democracy, lately commented on the current situation of human rights in Azerbaijan. The remarks go in a following line: the year 2013 has been one of a terrible as the government has been adding restrictive measures one after another, stressing on the alleged arrest of Anar Mammadli (imprisoned chairman of the Election Monitoring and Democracy Studies Center, a leading independent election monitoring group in Azerbaijan) last year on December 16<sup>116</sup>. As a matter of fact, Anar Mammadli was arrested a day before the new gas deal was signed on December 17, 2013 on delivery of gas from the Caspian Basin to Europe. In addition, Azerbaijani Parliament passed a law on restrictive amendments on NGO Act, which would “give Azerbaijan authorities enhanced powers to arbitrarily fine, and close down, non-governmental organizations that criticize government policies and actions, as well as create new administrative burdens involving receipt and reporting of grants”<sup>117</sup>. These two significant events concerning human rights occurring before and on the day the gas deal was reached, bears a question in mind if this was just a mere coincidence. Or, the government of Azerbaijan, knowing that signing the deal gives it a leverage to play around, used the opportunity to tighten the law and restrict the space for movement of the civil society actors. Regarding the imprisonment of Anar Mammadli, few human rights defending organizations made statements that the West should utilize the opportunity to pressure the government on softening the human rights restrictions when the deal on gas is signed next day. According to Mina Muradova, Allan Hogarth, Amnesty UK's Head of Policy & Government Affairs, claimed that the Foreign Secretary of the UK "must honor" his own promise not to allow trade interests to trump human rights concerns in foreign relations and use the UK's key role in Azerbaijan's economic prosperity to make it clear that human rights

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<sup>115</sup> Azerbaijan-Annual Report 2013. The State of the world's human rights. Amnesty International. Retrieved March 28, 2014 from <http://www.amnesty.org/en/region/azerbaijan/report-2013>

<sup>116</sup> Miriam Lansky: Azerbaijan is becoming closer to Central Asia (February 11, 2014). Azeri Report. Retrieved March 26, 2014 from [http://azerireport.com/index.php?option=com\\_content&task=view&id=4262](http://azerireport.com/index.php?option=com_content&task=view&id=4262)

<sup>117</sup> Statement of Eastern Partnership Civil Society Forum on NGO Law Amendments in Azerbaijan (January 31, 2014). Eastern Partnership Civil Society Forum. Retrieved April 12, 2014 from <http://www.eap-csf.eu/en/news-events/news/statement-of-eastern-partnership-civil-society-forum-on-ngo-law-amendments-in-azerbaijan/>

abuses will not be tolerated<sup>118</sup>. The “pressure” on the government was delivered in a message by U.S. Secretary of State, John Kerry, saying: “The 17 December final investment decision is a symbol of an important milestone in the Azerbaijani history. By making the first step in joining Europe, Azerbaijan is becoming a new reliable member of world energy resources and helps ensure Europe's energy security. The implementation of the Southern Gas Corridor after a long hard work, besides benefiting the consortium's numerous partners and neighbors, will strengthen the independence of Azerbaijan”<sup>119</sup>.

This statement confirms that the energy partnership and security relations prevent U.S. - Azerbaijan relations from reaching an edge of cliff. Rather, besides seeing Azerbaijan as a part of EU's energy security system, the Southern Gas Corridor would increase the independence of Azerbaijan (as Kerry emphasizes), likely from neighboring countries of Russia and Iran. However, such a multi-billion dollar contracts increase the capacity of the local government to resist the pressure and take a more stern position in continuing reckless repressions against the civil society actors. As a logical end, President Ilham Aliyev approved the changes and amendments to the "On Grants" part of the law "On state registration of legal entities and the state register" of the Code of Administrative Offenses. According to these changes NGOs will be obliged to register grants they receive with the relevant government organ, providing detailed information such as the period of the contract, the grant's amount and goals<sup>120</sup>. The government is blessed to have natural resources under control that brings capital to manipulate situation domestically by using forceful methods if necessary. We observe monopolization of social, economic and political life in Azerbaijan which makes it very viable for the government to have a direct supervision over the activities of independent and opposition groups.

To recap, government keeps prosecution of civil society activists despite increasing criticism of human rights organizations. The West is not capable as well as not much willing to influence the harsh stance of government because western countries, including U.S. are inclined to keep better relations with the current regime. Especially in the shadow of the crisis in Ukraine the West aims to be more careful on not straining the relations to putting the strategic partnership with Azerbaijan into jeopardy when the affairs with Russia is becoming worse and worse every day. This in turn increases Azerbaijan's strategic importance as energy supplier and a transit route to further oil and gas resources of Central Asian countries. Azerbaijani government, on its part sees and understands it apparently in a way that does not put a hold to its repressive position at least whilst it is on the chair of the Council of Europe unlike that many would expect it to be the case.

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<sup>118</sup> Muradova, M (January 08, 2014), Azerbaijan Arrests Election Monitor and Signs Shah Deniz Deal. The Central Asia-Caucasus Analyst (CACI). Retrieved March 30, 2014 from <http://www.cacianalyst.org/publications/field-reports/item/12884-azerbaijan-arrests-election-monitor-and-signs-shah-deniz-deal.html>

<sup>119</sup> U.S. Secretary of State congratulates president (January 07, 2014). News.az Retrieved March 30, 2014 from <http://www.news.az/articles/official/85555>

<sup>120</sup> President Aliyev approves stricter control over NGO grants (February 4, 2014). Meydan TV. Retrieved April 12, 2014 from <http://www.meydan.tv/en/site/politics/752/President-Aliyev-Approves-Stricter-Control-Over-NGO-Grants.htm>

## **Conclusions.**

The U.S. is willing to see a democratic system in Azerbaijan where all political freedoms are provided and elections are held free and fairly. This is clearly observed in the statements made by the U.S. officials. In addition, it is also a case that there is a significant volume of direct U.S governmental assistance to promote transition to democracy in Azerbaijan. However, there is also an inconsistency regarding formulated goals and the actual terms of relations between the two countries. Unfortunately, there are reverse causal relations between foreign assistance, official statements and improvement of democratic situation in Azerbaijan as the empirical facts indicate. It can be summoned that the oil and democracy conundrum presents a complex set of relations where inconsistent foreign policy agenda towards Azerbaijan affect the state of affairs in the country. The energy and military-security dimensions play greater role in relations between the two countries, very often at the expense of democracy promotion. So far, the government of Azerbaijan unwilling to open up its political system to competition has not faced any significant resistance by international community. As a result, more repressive measures have been utilized by the government to tackle challenges deriving from the opposition activism.

Carl Gershman and Michael Allen come up with few variables, which mainly indicate the repressive regime policies as the major restraint on effective democracy promotion. These include “constraints on the right to associate and the freedom to associate NGOs, impediments to registration and denial of legal status, restrictions on foreign funding and domestic financing, ongoing threats through using discretionary power, constraints on political activities, arbitrary interference in NGO internal affairs, harassment by government officials and harassment prosecution and deportation of civil society activists, establishment of parallel organizations or ersatz NGOs” (Gershman & Allen, 2006, pp. 40-45). Most of these restrictions have been put into practice in case of Azerbaijan as indicated in above analyses too. The government, thanks to the oil cash, has established its own funding institutions for NGOs as well, but it is obviously biased towards those who are supportive of government policies. Even Ministry of Education, for state funded scholarships to study abroad, gives priority to those who seek to pursue degrees in natural sciences and other closer disciplines. Some independent and anti-government groups remain untouched, but through adoption of various legal amendments their space of movement has been visibly reduced to the grade that their actions would not pose any significant threat to the current status of the government.

Carothers and Brechenmacher call it “the pushback” policies of the governments with semi-authoritarian political system who attempt to maintain sufficient control on political process to secure an indefinite hold while allowing enough pluralism to appease international criticisms and have legitimacy (Carothers & Brechenmacher, 2014 p.6). The approval of the last amendments on NGO Law in Azerbaijan can be a prime sample where the pushback has a critical impact on reducing the space for civil society organizations. Leila Alieva rightly emphasizes the fact that students who studied abroad, after they return, are recruited by the oil companies or international organizations due to lack of funding for NGOs, to ensure they are isolated from social movement as a whole (Alieva, 2009, p. 116). Or, the government establishes new educational institutions and think tanks, such as Diplomatic Academy and Centre for Strategic Studies, having international standards of payment, which seem more attractive for those who are back from abroad with high expectations about salary and social welfare packages. Hence, by these means, which are possible to afford by oil money, government controls and supervises all type of activities that youth are part of.

It is worth also to highlight that the government has been so far willing to organize some international non-political events, such as the Eurovision song contest in May, 2012. Hosting an international fun event

amidst gross human rights violations and degrading democratic situation was harshly criticized by local and international human rights activists. However, such tools have been one of the tactics of the government to gain positive image in Europe and international arena demonstrating the good will and openness of the state. The next of such a big event will be the hosting of the first European Games in Baku next year, which is an analogue of Pan-American or Asian games. The Games is going to be just months ahead the Parliamentary elections in November. It is still hard to predict the way the government will handle the flow of critiques on human rights violations on the eve and during this multi-sport event especially taking into account that government is persistent in chasing human rights activists.

Moreover, there are critiques arguing that opposition groups are not united and strong enough to mobilize force and become a legitimate challenging actor in the domestic arena with strong external links. Hence, it is not only about lack of sustainable, consistent and unbiased support of western countries, but the set of cross-cutting reasons are so complex that include institutional as well as structural factors. One of the critical institutional impediments or in other words, ineffective democracy promotion from foreign sources is due to shortcomings in the approach of funding by western donors. Most of the financial assistance is directed to governmental bodies, which simply use that money to strengthen its own basis to repress opposition further. As Leila Alieva notes the mis-design of external aid to the country is one of the crucial factors reducing the effectiveness of democracy promotion efforts of western donors (Alieva, 2009, p.119). U.S. kept providing financial assistance to the government of Azerbaijan in the field of democracy promotion through various aid programs, which have not positively affected the political environment in the country. Foreign Policy reporter Melina Haring indicates that the United States Agency for International Development has spent more than \$ 55 million in 22 years of period from 1991 till 2013<sup>121</sup>, but cumulative U.S. foreign assistance from FY 1992 through FY 2010 totaled \$ 976 million (all agencies and programs) (Nichol, 2013, p. 27), but to a very low extent it has all been effective that imprisonment and harassment of activists increase in number with harsher violence as empirical facts show.

Thus, in conclusion, the U.S. (as well as other Western states willing to see Azerbaijan more democratic) on the one hand, should pay attention to the fact that given the nature of regime the financial assistance provided directly to the government or government related structures will not have any visible impact on the state of affairs and - on the other hand- should exert more effective pressure on the government rather than being satisfied with fashionable statements. It is quite natural, that the U.S. and other western countries seek stability and security, also due to their business interests in oil and gas production. However, as “democratic states never fight each other”, establishment of democracy in Azerbaijan would reduce the risk of escalation of Nagorno-Karabakh conflict into a full-scale war, which would have catastrophic ramifications for the wider Black Sea region. In addition, lessons are to be learned from the past that supporting authoritarian regimes may one day have serious backlash considerably changing the geopolitical landscape of power in the region.

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<sup>121</sup> Haring, M (June 3, 2013), Reforming the Democracy Bureaucracy. Foreign Policy. Retrieved March 22, 2014 from [http://www.foreignpolicy.com/articles/2013/06/03/reforming\\_the\\_democracy\\_bureaucracy](http://www.foreignpolicy.com/articles/2013/06/03/reforming_the_democracy_bureaucracy)

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## **The Energy and Geopolitical Interests of the EU in Azerbaijan and Problems with Democracy: Factors Influencing Decision-Making**

### **Introduction**

Azerbaijan's democratic forces often criticize the West, i.e. the United States and the European Union, for neglecting issues of democracy and human rights for the sake of energy and geopolitical interests, as well as security interests. After each election, whether parliamentary or presidential, which are traditionally rigged in Azerbaijan and are held in a constrained environment, the opposition accuses the West of having no clear position on democratic values and of "double standards". Local opposition and civil society activists argue that the West is tougher on human rights in countries where there are no major energy resources (Georgia, Ukraine, Belarus or Moldova) and prefers to turn "a blind eye" to the more depressing situation in countries such as Azerbaijan, Kazakhstan and Turkmenistan.

By and large, these accusations are true. Azerbaijan's government faces no serious problems in relations with the West as it tightens repression against the opposition and civil society, the number of political prisoners grows and elections are grossly rigged. And this is despite the fact that Azerbaijan, as a member of the Council of Europe and the Organization for Security and Cooperation in Europe (OSCE), often ignores its obligations in the field of political reforms and human rights undertaken when joining these organizations.

This article will examine the reasons for this situation in relations between Azerbaijan and the West, mainly the European Union, objective and subjective factors influencing EU policy, as well as possible changes in the situation due to geopolitical processes taking place in the region at the moment.

### **Objective and subjective reasons**

The relatively soft position of the European Union and compromises on issues of democracy and human rights in Azerbaijan are explained by a set of reasons, both subjective and objective. To argue that the West sacrifices ideals of democracy only in the name of its own energy and geopolitical interests would be simplistic.

Since Azerbaijan gained independence, society in the country has had high hopes for Western support of the values of democracy and human rights. From the first days of independence, the country identified itself as part of Europe and aimed to join the Council of Europe and develop relations with the EU and NATO. These expectations intensified further when Azerbaijan was admitted to the Council of Europe in 2001.

However, since then, the practice of electoral fraud has not stopped and the human rights situation has deteriorated even further<sup>122</sup>, while the leaders of the European Union continued to call the government of Azerbaijan their partner, invite officials to Brussels and only superficially criticize gross violations of human rights, the lack of freedom of speech and assembly in the country and election fraud. As a result,

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<sup>122</sup> Freedom House reports on Azerbaijan. [www.freedomhouse.org](http://www.freedomhouse.org)

even among the active part of Azerbaijani society, apathy and frustration towards Western democratic values is growing.

To argue that the EU fully neglects issues of democracy and human rights in the dialogue with Baku would be wrong. Respect for human rights and democracy is not the last thing on the agenda of the European Union. EU High Representative for Foreign Policy Catherine Ashton and European Commissioner for Enlargement Stefan Füle have repeatedly issued joint statements on "human rights issues" with regard to Azerbaijan. This usually occurs after high-profile arrests of civil society activists, journalists and politicians by Baku and the adoption by parliament of repressive laws, of which there have been plenty in the last few years. EU top officials harshly criticize the government for these steps and require compliance with the commitments undertaken. However, Baku has learned to ignore these calls and, oddly enough, to accuse the European Union of a policy of "double standards".

Furthermore, in contrast to previous elections, in the last presidential elections in Azerbaijan in October 2013, the main international observation mission from the OSCE Office for Democratic Institutions and Human Rights (ODIHR) and OSCE issued a harshly-worded report<sup>123</sup> criticizing mass violations of the law and vote-rigging at a large number of polling stations and, more importantly, despite protests from Baku, neither the US nor the EU disowned the conclusions made in the report. On the contrary, they stated that they based their position on elections on this report.<sup>124</sup>

According to the report of the OSCE ODIHR, during the presidential elections in October 2013, at 58 % of polling stations, votes were counted at a poor or very poor level. At 11 % of the polling stations, serious violations were recorded in the voting process. And the whole process of the presidential elections was held with serious obstacles to the realization of citizens' freedom of association, expression and assembly.

At the same time, all European leaders, including German chancellor, the French president and the British prime minister, albeit with a delay, congratulated Ilham Aliyev on his victory in the election, thus indicating their willingness to continue to work with him.

### **Is there a choice?**

But did they have a choice? The policy of the European Union, especially in such a geopolitically sensitive region as the South Caucasus, is based on pragmatism and a complex of interests so the EU prefers not to "burn bridges" with a difficult, but reliable partner like Ilham Aliyev in such areas as energy security and counteraction against Iran.

Moreover, although Azerbaijan is lagging behind other countries in the region in the implementation of the European Partnership programme and reforms in the field of European integration, Baku is slowly but surely developing cooperation with the EU. For example, although Azerbaijan did not sign (and has no plans to sign in the near future) the association agreement with the EU during the Vilnius summit in November last year, the two sides signed an agreement on visa facilitation and an agreement on readmission between the EU and Azerbaijan. That is to say there is still some progress and Baku has not completely refused the process of European integration.

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<sup>123</sup> «ОБСЕ: Выборы в Азербайджане были недемократичными». Агентство «Туран», 10.10.2013

<sup>124</sup> «Аштон и Фюле: Выборы в Азербайджане не соответствовали международным стандартам». Агентство «Туран», 11.10.2013. Также «Вашингтон: Власти Азербайджана провели недемократические выборы». Агентство «Туран», 11.10.2013

Indeed, Ilham Aliyev proved himself as a reliable partner of the European Union in the issue of energy cooperation and energy security of Europe. In the summer of 2012, the Azerbaijani government finally announced the export route of large amounts of gas within the framework of the second stage of the development of the Shah Deniz offshore field. And this route is the southern part of Europe. Moreover, Baku took over some of the financial burden for the construction of two pipelines - TANAP and TAP - to deliver gas to the Balkan countries, Greece and Italy via Turkey. For the EU, which has long promoted its policy of diversifying energy imports and reducing dependence on Russian gas supplies, it was an important gesture by Ilham Aliyev, which could not go unnoticed.

Thus, issues of democracy and human rights, unfortunately, do not occupy a leading place in the current European agenda in the dialogue with Baku.

We need to be aware that Europe, although united, is not homogeneous and is known for its bureaucracy and lack of unity in the positions of member countries on many issues. In recent years, the Azerbaijani government has successfully taken advantage of this, seeking support in the capitals of some EU member states and reducing the general negative background and the flow of criticism in matters of democracy and human rights. Baku is actively working with countries such as Romania, Bulgaria, Hungary, the Baltic states and Greece, where great investments are being made (for example, the State Oil Company of Azerbaijan (SOCAR) bought the Greek gas distribution company DESFA in 2013 for 450 million euros).

Another important factor is the support provided by Azerbaijan to poor countries of Europe, for example, Bosnia and Herzegovina, Serbia, Montenegro, where Baku has been giving soft loans to governments in recent years, carrying out major infrastructure projects that create new jobs and conducting charitable campaigns. These actions cannot be overlooked in the EU, members of which have been experiencing economic difficulties and an economic slowdown in recent years.

Also, in the last decade the Azerbaijani government has skillfully funnelled some of the oil revenues into strengthening lobbying activities in the European Union and the United States. Currently Baku has built a large and extensive network of lobbying organizations in Brussels and Strasbourg, which protect the Azerbaijani government from criticism in matters of human rights violations. The so-called "cultural lobby" is actively being implemented - the semi-state-owned Heydar Aliyev Foundation and related structures have carried out a number of expensive charitable projects in recent years such as the restoration of the Louvre and the cathedral in Strasbourg, have conducted major campaigns in Italy, etc. This activity also has a positive impact on the image of the Azerbaijani authorities in the eyes of European politicians and the public.

### **"Caviar diplomacy" as an important factor in foreign policy**

At the same time, there is a practice of direct bribing of European and American politicians by Baku.

A real sensation was the publication of a report entitled "Caviar Diplomacy. How Azerbaijan silenced the Council of Europe" in May 2012. The report, which is a serious study, was published by the Berlin-based non-governmental organization European Stability Initiative.<sup>125</sup> The report states that "the Azerbaijani authorities are trying to silence critics and buy the loyalty of the members of the Council of Europe with the help of expensive gifts and black sturgeon caviar".

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<sup>125</sup> [http://www.esiweb.org/pdf/esi\\_document\\_id\\_131.pdf](http://www.esiweb.org/pdf/esi_document_id_131.pdf)

The report said that members of the Council of Europe, who are friendly with Azerbaijan, are turning a blind eye to human rights violations and receiving in return sturgeon caviar, silk carpets, gold and silver jewellery and other expensive gifts from Baku.

The report "Caviar Diplomacy. How Azerbaijan silenced the Council of Europe" is based on a series of interviews with officials in Azerbaijan and several European countries.

According to one of the report's authors, Gerald Knaus, Baku's efforts are "systematic" and "very aggressive". "Caviar diplomacy" includes a systematic approach to finding friends and inviting people in large numbers. Each year, dozens of members of the Parliamentary Assembly of the Council of Europe (PACE) are invited to Baku by pro-government NGOs or directly by the government. This includes a lot of very aggressive lobbying, promises, and after - the offer of posts as lobbyists to people who previously occupied very important positions in the Council of Europe in order to send a clear message: if you are on our side, you can become a well-paid lobbyist," Gerald Knaus says.<sup>126</sup>

The ESI report, inter alia, mentioned the former deputy from the German Christian Democratic Party and former member of PACE, Eduard Lintner, who was a member of the PACE observation delegation at the referendum in March 2009, which abolished the limit on presidential terms and allowed Ilham Aliyev to remain president indefinitely.

The PACE delegation's report said that the widely criticized referendum "showed the desire of the people of Azerbaijan to have greater stability and subsequent elements of democratization". By the end of 2009, Eduard Lintner left PACE and became chairman of the Society for the Promotion of German-Azerbaijani Relations (GEFDAB) – a shadow organization, which is called a de facto lobbying group of Baku.

Although representatives of official Baku called the report "absurd" and said that "it is a normal practice within the framework of diplomatic protocol" while the value of gifts never exceed the amount specified by law<sup>127</sup>, it made a lot of noise and forced even the Secretary-General of the Council of Europe to speak about it.

Meanwhile, the term "caviar diplomacy" became widespread in independent media, including opposition leaders and civil society activists of Azerbaijan. It is often used as a symbol of direct bribing of senior European and American politicians by the authorities of Azerbaijan and their lobbyists.

For example, Radio Liberty (RFE/RL), in the article "Caviar Diplomacy of Baku in the field of human rights" published in November 2013 after the latest presidential elections in Azerbaijan<sup>128</sup>, says that "the Azerbaijani authorities are spending millions of dollars to convince politicians in Europe and the United States that the oil-rich country is a reliable partner and divert attention from criticism of its authoritarian regime and human rights violations".

- Almost 50 years ago, the Beatles gave the world the song "Can't Buy Me Love". However, the Azerbaijani authorities, who are receiving considerable income from the Baku-Tbilisi-Ceyhan pipeline, seem intent to prove the opposite, the article says.

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<sup>126</sup> (<http://rus.azattyq.org/content/azerbaijan-ikornaya-diplomatia/25164192.html>)

<sup>127</sup> «Европа критикует "икорную дипломатию" Баку», Агентство «Туран», 13.06.12

<sup>128</sup> <http://rus.azattyq.org/content/azerbaijan-ikornaya-diplomatia/25164192.html>

As an example, it cites an event (dinner and show) in Washington on 30 December 2013 organized and sponsored by the non-governmental organization Azerbaijan-American Alliance (AAA), which is headed by the son of the influential Azerbaijani Transport Minister Ziya Mammadov - Anar Mammadov. The event was attended by about 600 influential US politicians, including four senators and 13 congressmen.

This generous reception became part of the aggressive strategy of Baku's "caviar diplomacy", which consists in the use of numerous gifts, treats and other incentives to win over the opinion of influential people. Former US Ambassador to Azerbaijan Richard Kauzlarich, commenting on the event, said that "such events only underline the contrast between reality and fiction in Azerbaijan".

That the "caviar diplomacy" of Baku is bearing fruit is proved by the vote in PACE in January 2013 when the Assembly rejected with 175 votes "against" as opposed to 79 voted "for" a harshly-worded report prepared by the Special Rapporteur Christopher Strasser (Germany), in which he named 85 political prisoners and called for their release. German MP Christopher Strasser has been denied a visa to Azerbaijan since he was appointed special envoy in 2009.

Turan news agency also wrote in October 2013 that "the report of the European Parliament observers reeks of caviar diplomacy".<sup>129</sup> The article states that the PACE observation mission and the European Parliament claim in their primary conclusion on the 9 October presidential election that the election process was "transparent, fair and free". The head of the delegation of the European Parliament, Pino Arlacchi, expressed satisfaction with the "technical preparation" of the elections by the Azerbaijani government, adding that the missions did not record cases of pressure on observers at polling stations.

All these facts allow Azerbaijani human rights defenders and civil society activists to openly talk about corruption among some European politicians. For example, the director of the Institute for Peace and Democracy, an Azerbaijani human rights organization, Leyla Yunus, said at a press conference on 13 June 2012 in Baku that the rapporteurs of the PACE Monitoring Committee on Azerbaijan, Pedro Agramunt Font de Mora (Spain) and Joe Debono Grech (Malta), do not want to recognize human rights violations. "The rapporteurs pursue selfish goals and have received bribes from the Azerbaijani government. The preliminary version of their report on the situation in Azerbaijan served as the grounds for such allegations," Yunus said.<sup>130</sup>

The single candidate from the opposition National Council of Democratic Forces (NCDF) in the elections in 2013 October, Jamil Hasanli, also publicly accused the European deputies of bribe-taking.<sup>131</sup> At a press conference in Baku on 21 October, Hasanli said that the European institutions are investigating the scandalous assessment of the presidential election by the missions of PACE and the European Parliament. "There are credible reports of negotiations with members of the PACE delegation in Strasbourg's Hilton hotel on the payment of their fees. We know which Azerbaijani officials conducted these negotiations and who the translator was. This is also known to law enforcement authorities of France. Over time, this information will be made public," Hasanli said.

Of course, such an aggressive policy by the Azerbaijani government and the unethical actions of a number of European deputies and politicians seriously hamper the work of civil society activists and human rights defenders in the country to attract the attention of the EU and international organizations to problems of democracy and human rights in Azerbaijan.

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<sup>129</sup> <http://www.contact.az/docs/2013/Politics/101000053006ru.htm#.Ux7vuNHNuM8>

<sup>130</sup> Turan news agency, 13.06.12

<sup>131</sup> Turan news agency, 21.10.13

However, unlike politicians, European human rights organizations such as Reporters Without Borders, the International Crisis Group, European Stability Initiative and many others, as well as the leading media of European countries demonstrate a consistent and tough stance criticizing the government of Azerbaijan for mass human rights violations and suppressing freedoms and urge their governments not to give up ideals of democracy for the sake of energy and geopolitical interests.

This position most clearly manifested itself during the Eurovision Song Contest in Baku in 2012 when international human rights groups and media, together with local civil society activists, held the bright and memorable campaign Sing for Democracy to attract international attention to human rights problems in Azerbaijan.

There is every reason to believe that such a campaign will take place again in 2015 during the First European Olympic Games in the Azerbaijani capital.

All of the above factors, coupled with the serious energy interests of the European Union in Azerbaijan, prevent EU from paying due attention to issues of human rights and democracy in the country and make them compromise on these issues by prioritizing a pragmatic policy.

In addition, while making assessments one must take into account the extent to which the subject of European integration is a priority in Azerbaijani society itself. We have to admit that in current political conditions unlike countries like Georgia and Moldova, European integration is not promoted as a national idea in Azerbaijan. As an example, we can cite the recent events when Azerbaijan, as well as Ukraine failed to sign association agreements with the EU during the Vilnius summit of the Eastern Partnership in November 2013. Moreover, in contrast to Kiev, Baku's decision had long been known. This decision brought thousands of Ukrainians to Independence Square in Kiev to protest against the rejection of European integration, which ended in a revolution and the overthrow of the government of Viktor Yanukovich.

And in Azerbaijan, meanwhile, most probably due to the gradual withdrawal of the issue from the official agenda, not only were there no protests, but this topic (European integration) was not dominant in the highly controlled media and public political debates. The impression could have formed that the public simply did not notice it. We can assume that seeing such a situation, European politicians do not want to force events.

### **Outlook: "good" and "bad" news**

However, the recent events in the region and their development suggest that the situation with the attention of the international community to problems of democracy in Azerbaijan may change. And if some events might mean "good news" for local civil society activists, others, on the contrary, threaten to become "bad news".

The issue is about a warming in relations between Iran and the West in recent years, which may weaken the position of the government of Ilham Aliyev in the eyes of the EU and the US. On the other hand, tensions between Russia and Ukraine, on the contrary, may lead to an increase in the role of Azerbaijan for the West and, accordingly, to new more serious compromises on issues of democracy.

The restoration of relations between the US and Iran, supported by the Geneva nuclear agreement signed in January, can make serious adjustments to the strategic priorities of the US and EU in the South Caucasus, especially with regard to Azerbaijan.<sup>132</sup>

In recent years, the US and the EU have not placed an emphasis on democratization in their relations with Azerbaijan because of the strategic position of Baku as a northern neighbour of Iran - a position that has made the country one of the key elements of the policy of deterrence pursued by the West against Tehran. However, now that the United States - along with the other permanent members of the UN Security Council plus Germany - is taking the first steps towards the restoration of a working relationship with Iran, this justification of tolerance exhibited by Washington towards the violation of rights and freedoms by Azerbaijan may come to naught.

In addition, the normalization of relations with Iran and the lifting of the embargo could lead to a change in the existing energy export situation in the region. Iran, with its large oil and gas resources, can become a priority for the EU. In this regard, Azerbaijan's future as an energy supplier is shrouded in uncertainty. The shale gas boom in North America and reduced demand in Europe threaten Azerbaijan's revenues from energy and pipeline projects. The potential return of Iran to the ranks of the world's energy suppliers is able to strongly reduce the current stream of Azerbaijan's revenues as investors may find Tehran as a more attractive option than Baku.

Earlier, a year and a half ago, many experts speculated that Azerbaijan could serve as a springboard for military operations if the US and Israel, together or separately, strike against Iran. In exchange, the Ilham Aliyev administration hoped (and largely it was justified) that the West would turn a blind eye to his authoritarian style of government, in particular, the attack on the free press and political dissent.<sup>133</sup>

The Geneva agreement jeopardizes the current scheme. Underlining Azerbaijan's anti-Iranian reputation in this context can become counterproductive.

For Ilham Aliyev's team, it means that they will have to find another basis for formulating their strategic importance for the West. Changes in the geopolitical situation, especially if the nuclear agreement ensures Iran's transition to more liberal domestic policies, will significantly complicate the task of the Azerbaijani authorities in justifying their authoritarian policy.

If this happens, we will likely start to see a change in EU policy on Azerbaijan and prioritization of issues of democratization as a priority in cooperation, which we have not seen before.

On the other hand, the role of Azerbaijan may seriously increase because of the events on "another front" - the conflict between Russia and Ukraine over Crimea. Western media have reported that the EU and the US are looking for an alternative to Russian gas exports to Europe and to the transit of NATO coalition cargo from Afghanistan through Russian territory.<sup>134</sup>

One can predict that after the freezing of military cooperation between the US and Russia, Azerbaijan's role in US regional policy in the Caucasus is sure to grow as the country will remain the only reliable transit corridor for the withdrawal of the coalition's troops and cargo from Afghanistan. Currently, about

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<sup>132</sup> <http://www.eurasianet.org/node/68038>

<sup>133</sup> <http://www.eurasianet.org/node/68038>

<sup>134</sup> <http://online.wsj.com/news/articles/SB10001424052702304020104579429443894406788?mg=reno64-wsj&url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB10001424052702304020104579429443894406788.html>

40 per cent of all goods and military equipment withdrawn from Afghanistan go through Azerbaijan, and this figure will increase after the termination of cooperation with Russia.

In addition, because of problems with Moscow, the EU is likely to show more attention and support for Azerbaijan as an alternative supplier of gas to the European market. In addition to its own gas resources, which can be exported to the EU, Azerbaijan is the only country through which Turkmen gas can be exported to Europe. Also, large amounts of Iraqi gas can be exported to Europe via Turkey's TANAP pipeline, which is controlled by the State Oil Company of Azerbaijan (SOCAR).

In this regard, it can be assumed that the increased role of Azerbaijan in transit issues and energy security will negatively affect the West's attention to problems of democracy and human rights. In any case, the Ilham Aliyev administration will hope that in exchange for loyalty, Washington and Brussels will not over-emphasize these issues in their dialogue with Baku.

It is unlikely that in these conditions the opposition and civil society in Azerbaijan can hope that the European Union will give up the policy of "double standards" and will be more consistent in emphasizing the question of democracy in negotiations with Baku. We have to rely on ourselves...

**Yevgeny Zhovtis**

## **The Energy Interests of the West and Support for Democracy in the Countries of the Caspian Region: Promotion of Values or "Real Politik"?**

### **Introduction**

The subject of discussion in this article is not only the energy interests of the West in the Caspian region, which, as will be shown below, create problems to a certain extent for the development of democracy and respect for human rights, but also the development of the region in terms of stability, economic and political progress and security, which is obviously the interest of the peoples of the region and the interest of the international community.

In this regard, we should note the heated debate, which has unfolded in the press in the last few months and has involved a number of leading Russian political scientists (Lilia Shevtsova<sup>135</sup>, Georgy Satarov, Dmitry Vaysburd, Vladislav Inozemtsev and Aleksey Arbatov), experts of the US and the UK - representative of Freedom House David Kramer, strategist Thomas Graham, Andrew Wood and others.

The discussion centred on the strategic approach of the United States to the policy on Russia. I believe that the arguments and counterarguments put forward during this discussion are fully applicable to other parts of the former Soviet Union - the Caspian region and Central Asia.

The question of the correlation between the strategic approach as the implementation of "real politik" emanating primarily from Western interests in the broad sense, including energy, and the promotion of the values that must determine to some extent the interaction of Western countries with the regimes that emerged after the collapse of Soviet Union is a very difficult question.

Value orientation based on the recognition of the fundamental principles of freedom, respect for human dignity and human rights, the rule of law and democracy as a process of the development of socio-political systems based on these principles was an important stimulus in the initial stage of perestroika in the USSR.

Moreover, it is a stimulating message to intellectuals and the advanced part of post-Soviet society, while the language of "real politik" was an understandable language for the ruling elites in post-Soviet countries.

Therefore, in the medium- and long-term, in terms of the involvement of the West in the processes in our region, it is necessary to answer the question: what message is Western policy in the post-Soviet area sending and to whom? Only to the authorities? Or to peoples? Or to both? And what is the correlation between "real politik" and the policy of values? It is clear that it will differ among the countries of the region due to differences in political regimes, but there should be some clarity on this issue.

### **The economic transition of the post-Soviet area in the 1990s - "a time bomb"**

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<sup>135</sup> Шевцова Л. Итоги. Год 2013-й – жизнь в Interregnum. Или о том, как мир заблудился. – 2014. URL: <http://www.ej.ru/?a=note&id=23996>

I will try to analyze threats to stability, development and security in the region from the viewpoint of a human rights activist and a person involved in socio-political processes in the post-Soviet area nearly since the beginning of the 1990s.

Obviously, threats to stability and security in the region have both an external and internal nature.

Of course, one of the factors, for example, for Central Asia and Kazakhstan will be the withdrawal of the coalition troops from Afghanistan. Although, going forward, I will say that for Kazakhstan the withdrawal of troops from Afghanistan, from my point of view, will not pose such a serious threat with regard to the spread of radical political Islam, extremism and terrorism, as these threats to this country form more in the Caucasus than in Afghanistan.

Of course, the foreign policy context in a broad sense, from the conflict in the Middle East to the situation in the North Caucasus, from the political and economic ambitions of Russia and China to large-scale global economic crises, from trans-boundary and water issues to the fight against drug trafficking, has a major impact on the formation of threats to stability and security in the region, but still, I think, internal factors are more important.

And I think we should pay special attention to the factor, which, I think, does not receive sufficient evaluation. I mean the effects of the economic transition in the former Soviet Union in the 1990s.

This transition is unparalleled in history, because, first, it was a transition from a planned state economy based on common property to a market economy based on private property. And second, the main beneficiary of this transition was the ruling elite, the Soviet Communist nomenklatura and Soviet bureaucracy.

A small digression into history<sup>136</sup>.

The institution of private property has evolved in the world over the centuries. It evolved as an economic institution, as an institution, which is the basis of the market economy. It also evolved as a legal institution, as the foundation of civil and commercial law in particular. Finally, it evolved as a cultural institution and as an important element of human relations. The Great October Revolution invaded this evolutionary process, and for almost 70 years, the population of the former Soviet Union was excluded from the process of the evolution of the institution of private property and all related institutions, forms and procedures. The Soviet planned economy did not involve the development of private property as the most important economic institution. Soviet law did not consider the institution of private property as an integral and essential element of the legal system. Finally, not only did the institution of private property not evolve in Soviet society, it rather degraded as it was considered alien to the Soviet system and notions of the Soviet man.

That is to say at the start of the economic transition in post-Soviet societies there were no conditions for the institutional development of property relations. As a result, in some 10 years, in the lifetime of one or two generations who lived in conditions of equal attitude to property due to the absence of private property and the absence of a sense of social stratification, we moved to a completely different state and a different economic base, which manifests itself in severe economic and social problems, huge social stratification and obscure prospects, especially in rural areas and for the poor. We moved to private

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<sup>136</sup> See also Иноземцев В.Л. О развитии частной собственности в России // Независимая газета. 2013. 28 мая.

property without this institution being rooted in economics, law and culture. We found ourselves in states that formed in place of the former Soviet Union with emerging billionaires and multimillionaires who owned most of the public property, belonged to the ruling elite and became new bourgeoisie mainly due to power resources and the chance to redistribute most of the economic potential of the former Soviet Union in their own interests.

In essence, the period of the "wild" accumulation of capital, which is well-known from history, became a period of the "wild" division of capital in the 1990s. In a historically short period, public property was divided into many pieces of "private property" by using mainly power and administrative resources.

The genesis of this process is very unusual.

During the decades of the communist regime, a system of governance formed in which power was embodied by the "boss' chair", i.e. a post. The higher the post, the more opportunities there were for redistributing wealth to one's own advantage. At the same time, money and private property did not perform the functions inherent in countries with "normal" economic relations. For a country with a total deficit of goods and services, not material wealth, but proximity to the distribution mechanism was becoming increasingly important. The formula "you have what you distribute" became the alpha and omega of Soviet society.

On the other hand, this situation did not suit the political elites of Russia, Kazakhstan and other former Soviet republics, which had already matured by the end of the 1980s to legalize their position of "shadow" owners despite their communist past. Therefore, they decided to change their status by giving the money and property, which they managed, but did not own privately, their proper function. Obviously, the handover of property into the hands of the party nomenklatura had to be carried out as soon as possible and using all the tools available at that time.

Here we touch only on this aspect of the transition period, though there is no doubt that the number of influencing factors is much broader. Moreover, defeat in the "Cold War", the economic crisis, political and ideological problems, the crisis of the "empire", etc. were, of course, crucial for the inevitability of such economic transition, but nevertheless the chance to divide property mobilized the elite, and they made maximum use of this favourable environment for unprecedented enrichment in the shortest time.

Obviously, solving the problem of redistribution of property or rather its division in their interests, the nomenklatura had to consider two fundamental points:

1. The absence of sufficiently free capital for the easy purchase of all (or most) more or less lucrative and promising businesses, land, etc.
2. The psychological directives and the mentality of most of the population brought up on the ideas of public property, equality and priority (albeit declarative) of workers over other social groups.

Thus, the mechanism of division of property had to be set up so that it takes into account both the temporary lack of funds in the hands of the former party and economic nomenklatura and after "perestroika" - the political elite of independent states, and on the other, makes it possible to explain to workers ideologically and practically that they are also participating in this division of property and are playing the "main" role in it.

Furthermore, it should be noted that denationalization<sup>137</sup> and privatization are non-recurring acts.

That is to say denationalization and privatization occur once (unless, of course, we assume that there will be no repeat nationalization on the basis of the 1917 syndrome, and accordingly, denationalization and privatization will not be needed again after some period of time). In the future, after the appearance of the private owner, companies can be bought and sold, but it will have nothing to do with denationalization and privatization.

Creating such a mechanism, the ruling elite had to address the abovementioned objectives: to create initial capital as soon as possible for the subsequent free and completely legal purchase of property and at the same time, to form a mechanism to prevent the premature "leakage" of property" into the "wrong" hands.

It should be noted that the Soviet bureaucratic nomenclature was fairly consistent and energetic in dealing with these problems, especially as that the breakup of the Soviet Union created unprecedented opportunities for the local elite and almost completely untied their hands. Another question is that in this way the state's economy as such made its own corrections. The disintegration of economic ties, violation of principles of supply of raw materials and equipment, as well as established markets, among other things, led to a serious socioeconomic crisis.

So the ruling elite had to carry out initial "accumulation" ("division") of capital. It should be noted that the "ruling elite" means, of course, not only public servants and senior officials, but also their circle or relatives, friends, etc., or representatives of clans behind them.

How was the "accumulation" ("division") of the initial capital carried out? Naturally, the distribution system, which was preserved almost completely, was used first of all. It included: the system of privileges, quotas and licences for the export of raw materials, the system of issuing bank loans with letters of authorization from responsible officials, and the system of supplying raw materials. The most "productive" and profitable sphere was, of course, trade in raw materials available in Kazakhstan. Trade in nonferrous, rare and rare earth metals, which are in demand on the world market and are extracted in Kazakhstan in significant quantities, was almost completely controlled by the ruling elite through a system of quotas and licences. Revenues from such trade or issue of permits for the development of mineral resources were, respectively, redistributed, forming that same "initial" capital.

A similar situation was observed with oil, petroleum products, grain, etc. Income from imports and exports was redistributed through the bank credit system. Moreover, before moving to national currency, there was an active exchange market that made it possible to form huge capital on the difference in the rates of the US dollar and, for example, the German mark in Moscow and Almaty.

In addition, the assets and property of the former CPSU and other public and quasi-public authorities and organizations such as the Soviet trade unions were "privatized" fast enough and "efficiently". On the basis of these funds and property, the authorized capital of a number of joint-stock companies and banks was formed.

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<sup>137</sup> A term used for stressing the period of the transfer of property from the state to a private owner. That is to say after denationalization property is no longer state-owned, but has no specific owner yet, which is to happen in the second stage – privatization

This process was particularly fast in 1991-1994 and made it possible to accumulate significant funds for the intended redemption of state property, although a large part of them was exported abroad and "settled" in US, Swiss, German and other Western banks.

The whole process of privatization in the second stage was divided into three areas:

- Privatization of large and unique property complexes on individual projects;
- Mass privatization of medium-sized enterprises;
- Small-scale privatization carried out through auctions and tenders, small shops, public utilities, and domestic service.

What is interesting is that unique complexes privatized by individual projects (which means under strict state control and preserving state influence) included:

- Mining companies and their specialized institutions;
- Companies producing ferrous and non-ferrous metals;
- Oil and gas companies;
- Oil refineries;
- Companies producing chemicals and fertilizers;
- Instrumentation and engineering companies (with fewer than 200 people);
- Machine-tool companies;
- Defence companies (except non-privatized ones);
- Separate procurement, processing and service companies of the agrarian-industrial complex, the decision on the privatization of which by individual projects is made by an authorized state body;
- Large department stores;
- Companies, products and services of which are a state monopoly.

Even a cursory analysis of this list leads to very definite conclusions and confirms the previously stated concerns about the consideration of specific private interests in the course of privatization.

What is remarkable is that several waves (stages) of privatization in the early and mid-1990s formed a relatively small layer of owners consisting of the party and Soviet nomenklatura and related "new" entrepreneurs, as well as representatives of the criminal world. All major sectors of the economy, "flagships" of Soviet industry and agriculture, and finally land turned into private property.

Apart from the fact that this property was acquired mainly, to put it mildly, illegally or semi-legally, it was also illegitimate in public opinion. It was not protected by the sacred right of private property and was therefore not protected from redistribution in the event of change of power.

It had its side effects. In order to protect it, this nature of wealth forces the ruling elite to create and maintain political systems based on monopolies of the so-called system of "personal guarantees" that ensure security not through clear rules established by the law and backed by effective legal institutions of the state, but by creating patronage-clientele pyramids where specific persons ("patrons") are the guarantors of the security of their "clients" as long as they are in power.

Among other things, these systems naturally produce comprehensive corruption, full political control and political monopoly, which do not involve any real opposition and complete control over the legal

institutions of the state, which, in turn, does not involve any independent judiciary or law enforcement agencies subordinate only to the law.

Since privatized property can no longer change its nature, and the creators of this system and their circle, for example, in Kazakhstan are naturally approaching the end of their political career, there is a problem with the transfer of power on the one hand and preservation of property and security guarantees on the other.

Simply put, the task is to replace personal guarantees with institutional ones as personal guarantees no longer provide a sufficient level of security. Periodic scandals, arrests and convictions of high-ranking officials in Kazakhstan only confirm this conclusion. I think that few people consider these scandals, arrests and convictions as a fight against corruption.

And this replacement of guarantees and change of government should be carried out in conditions of illegality or semi-legality of assets acquired by the ruling elite in the period of privatization and their illegitimacy in public opinion.

That is to say, in my view, one of the most serious threats is not only and not so much the personal change of power in Central Asia in the foreseeable future, especially in Kazakhstan and Uzbekistan, as the problem of solving the problem of another stage of economic and political transition associated with the nature of property acquired as a result of privatization in the 1990s, and accordingly, creating an environment for political competition, conditions for the development of the state under the rule of law and capable legal institutions of this state.

The results of denationalization and privatization carried out in the first half of the 1990s laid "a time bomb" under any further economic or political transition.

Without "de-mining" and solving this problem, we will constantly be in the area of vulnerability and fears associated with any change of personalities in the higher echelons of power.

The severity of these problems, of course, differs between countries in the region, but in one form or another, they have the same nature.

Threats associated with the change of power are aggravated by growing social problems because, among other things, the Soviet housing and municipal infrastructure, created back in the last century, has been destroyed over the years, and its restoration or development will be a serious burden for the population and the state.

Growing social stratification causes social tensions and a clear increase in the potential for conflict and in conditions of the consumer orientation of medium-sized and large businesses in the absence of social responsibility.

Finally, widespread distrust in the legal institutions of the state because of their inability to provide a sufficient level of equity leads to the spread of legal nihilism and the need to increase the use of the coercive apparatus.

Under these conditions, the more the authorities in regional countries eliminate the moderate, secular and non-violent opposition from the political scene, the more they create a vacuum that is inevitably filled with more radical views, Islamists or extreme leftists.

The threats I listed are, of course, not a full list, but they are systemic and have their own history and logic.

They require an appropriate response and short-, medium- and long-term efforts.

And no progress in macroeconomic reform, inward investment or economic growth eliminates these internal systemic political problems.

### **The interests and policy of the West in the region**

If we talk about the long-term interests of the West in the region, both in terms of energy and in terms of security and sustainable development, we have to look at the political models that are being implemented in the region and Western policy in relation to these models.

In the more than 20 years after the collapse of the Soviet Union, Western policy in the region has been mainly determined by economic (including energy interests) considerations, geopolitical interests and objectives of security (especially after the events of September 2001).

Of course, since the early 1990s, in all Central Asian countries, the West, particularly the United States and the European Union, have been taking steps to promote democracy, the rule of law and human rights.

Significant funds were invested in educational programmes and in support of nascent civil society institutions.

Individual countries of the European Union and its structures as a whole, the OSCE, the UN and international financial institutions have been trying to promote legal reform, institutional development and capacity building through various assistance programmes.

Suffice it to recall the numerous programmes and projects to reform the civil, civil procedure, criminal, criminal procedure, administrative and other branches of law; millions invested in reforming the police and prosecutor's office, judiciary and security agencies, thousands of seminars, conferences, "round tables" and training sessions for civil servants and representatives of the emerging civil society.

That is to say along with pursuing its geopolitical and economic (including energy) interests, the West (as a whole and at the level of individual states) began to encourage the development of democracy and the rule of law based on its perception of more efficient models of social and political structure and the best practices.

Unfortunately, apparently, the euphoria from the victory in the "Cold War" over the Soviet Union and, consequently, the reduced level of danger from the confrontation with the largest nuclear power on the one hand and the presence of other challenges (economic, geopolitical and security threats) on the other influenced the fact that Western policies in the former Soviet Union have been very short-sighted and ineffective.

The crisis in the West's relations with Russia in connection with Ukraine is the most striking example of this. However, such examples existed before, but did not attract enough attention and appropriate response.

For example, in the mid-1990s a regime that has little difference from North Korea formed in Turkmenistan. It is a typical dictatorship and oriental despotism in the full absence of political opposition, independent media or free civil society organizations.

Despite that, Turkmenistan has ratified almost all the fundamental UN conventions on human rights and is a member of the OSCE, where Western countries are in the majority and actively influence (even with the consensus decision-making procedure) the promotion of the values included in the basket of agreements on the human dimension.

That is to say a state that does not comply with any basic commitments on the human dimension, a state where there has been no information for nearly 10 years about almost 60 political prisoners who were arrested in 2004 in connection with cases on the so-called "assassination" attempt on Turkmenbashi, whom even the Red Cross is not allowed to see and of whom, according to various unofficial data, about 25, including two former interior ministers, are already dead, continues to be in "dialogue" with the West on the human dimension within an organization that had certain and clear human rights obligations.

Obviously, in this case, Turkmen gas and economic interests for the West not only prevail over support for democracy, but are clearly the most important thing without any hope for democratic change in the foreseeable future.

Very "modest" hopes were pinned on the new Turkmen leader after the death of Saparmurat Niyazov Turkmenbashi, but Berdymuhammedov very quickly demonstrated full commitment to the same isolationist policies and dictatorial nature of the political regime.

Using a series of very simple explanations or rather "spells" about "Asian mentality", "the need to overcome the Soviet past", "the need to change more than one generation and hope on the youth" and "civilization and technological gaps", the West convinced itself and the rest of the world that for the time being, support for democracy is practically useless here and therefore it is necessary to pursue your own interests and see what happens afterwards.

A similar situation is developing in Uzbekistan, where a rigidly authoritarian regime close to a dictatorship has taken shape. The 2005 events in Andijan, where, according to various estimates, from a few dozen to hundreds of people died, led to Western sanctions for some time, which were quietly lifted a few years later and the West's relations with Uzbekistan became pragmatic again, considering the operation of the coalition forces in Afghanistan.

That is to say another state where the development of democracy, rule of law and human rights can be forgotten is a member of the OSCE, conducts a dialogue on human rights with the West (both the United States and the European Union) and everyone pretends that some process is under way.

The West, and especially the United States are satisfied with cooperation with Uzbekistan's leadership in the fight against Islamic extremism and terrorism and, as in the case of Turkmenistan, they have convinced themselves that since democratic changes are impossible in the immediate historical future, it

is necessary to combine the pursuit of their own economic and geopolitical interests, leaving support for democracy to some declarative statements on international platforms.

In post-civil war Tajikistan, Emomali Rahmon's cult of personality has in fact taken shape, the political opposition has been suppressed and the country is increasingly characterized as rigidly authoritarian. And here the policy of the West is also mainly focused on assistance in overcoming the consequences of the civil war and partnership in combating security threats and drug trafficking.

In Kazakhstan a super-presidential republic, which has been led by the same man - Nursultan Nazarbayev - for some time prior to independence and during the entire period of independence, has formed at the level of legislation and law enforcement practice.

And here, despite all the promising initiatives and hopes of the West on the successful development of Kazakhstan as a leader in Central Asia in connection with quite progressive economic transition, the country essentially came to political monopoly with the complete absence of political opposition in elected bodies, independent radio and television and a completely corrupt legal system.

That is to say support for democracy led to nothing but a relatively softer authoritarian regime.

But energy interests, as well as economic and geopolitical interests are reflected in Western policy in Kazakhstan clearly and effectively.

And only in Kyrgyzstan, which has experienced two revolutions over the past few years, there are some glimmers of political transition to a democratic socio-political government, although it is complicated by the rise in nationalism and the struggle of clans here.

## **Conclusions**

Based on the abovementioned and evaluating Western policy in the region, we can formulate the following thesis.

In today's world, democracy (as well as the rule of law and human rights) had four "enemies": oil, gas, terrorism and geopolitical considerations.

The presence of all four "enemies" is characteristic almost for all countries of the Caspian region.

These "enemies" define the political models established in regional countries and, as already noted above, complicated by the results of the economic transition of the 1990s, and by Western policies.

But, as it seems to me, a policy based on energy (economic, geopolitical and other) interests, which leaves support for democracy to the future (when conditions are ripe), is very effective in the short historical outlook, but does not consider future challenges and problems associated with the nature of the regimes that emerged in the post-Soviet area.

The conservative-protective models being implemented in the region, including in Russia and Kazakhstan, in my opinion, are doomed from a historical point of view.

First, for example, in Kazakhstan, this model will ensure the security of the elite itself to a lesser extent due to the weakening of the system of personal guarantees and inevitable change of power in the foreseeable future.

And, from my point of view, the problem is not who will be the successor, but what political power configuration will be selected and what model will be implemented. Ukrainian journalist Vitaly Portnikov rightly observed by analyzing the political processes of the last century in Latin America that "a society which is not seeking change, but is rushing in search of a strong personality is doomed".<sup>138</sup>

Uncertainty in this respect and the lack of confidence are the cause of the narrowing of even the small and mostly illusory freedom that existed in Kazakhstan. The need for full control over the political development of the situation forces the elite within the framework of the first model it is implementing to use more repressive tools, which, as they think, provide their security.

Second, as I mentioned above, greater problems, including social (economic downturn, economy based on raw materials, pensions, worsening housing problems), social stratification (very high decile index, i.e. the ratio of the income of the richest 10% in relation to the poorest 10% , which tends to increase) and the inability of the legal institutions of the state to ensure fairness in terms of equality of all before the law and impartial justice will appear and escalate before those who implement this model.

Third, this model will have fewer and fewer "valves" for letting off steam and increasingly rely on coercive control over the minds and actions of citizens, which will turn the country into a police state that will not only fail to solve the above problems, but also require increased resources.

And for this reason, in terms of long-term interests, including energy and security interests, the West would have to be interested in promoting political reform and transition to a democratic social and political structure.

I would not say anything new if I determined that democracy is not a state, but a process of development of the state, society and social and political system based on certain principles.

This model is based on the primacy of individual rights and freedoms, individual interests and public interests as a combination of the interests of all citizens. This model assumes that citizens provide the state, or to be more precise, selected or appointed authorities with necessary competence and powers to ensure their safety and maintain an acceptable level of fairness.

But more importantly, due to the propensity of any government, unfortunately, to expand its zone of influence and engage in abuse in one form or another, in such a model public institutions and mechanisms are created for continuous monitoring of the activities of the authorities.

From all models existing in the world, these models are the most adaptable and therefore, stable as in the modern world stability has a dynamic nature associated with the adaptability of the system.

These systems are able to respond adequately to social processes and are more effective in addressing social and security problems.

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<sup>138</sup> Портников В. Праздник козла // Новая газета. 2014. 28 января.

And here there is no dilemma between energy interests and support for democracy.

Energy interests, security interests and in general, mutual partnership interests of regional countries and the West and support for democracy as a way of ensuring stability and sustainable development are, in my view, a historical outlook that has no alternatives.

In this regard, I will once again turn to the brightest and last example: "The Ukrainian crisis."

And without much exaggeration we can say that the West's energy interests in Russia without sufficient support for democratic development in the country - the actual successor to the Soviet Union, especially in the 1990s, led to the most serious global crisis of recent decades.

This is not abstract reasoning but concrete facts.

And parallels with other countries in the Caspian region suggest themselves.

## **The Influence of Energy Resources on Conflicts in Kazakhstan**

### **Introduction.**

The presence of energy reserves is a powerful factor influencing both the situation in a particular country and the policies that its government is pursuing, including its geopolitical aspect. And in this case, Kazakhstan is no exception. Everyone knows and remembers that as part of the Soviet Union, Kazakhstan had powerful energy potential. Kazakhstan currently has 1.8 % of world oil and gas reserves. According to the Statistical Review of World Energy prepared by the British company BP, at the end of 2012 Kazakhstan took 12<sup>th</sup> place in oil and 21<sup>st</sup> place in gas reserves.

### **Internal conflicts**

#### **The conflict between society and the current government**

The government has made oil and gas (as well as other natural resources) the basis of its financial well-being. What I have in mind here is not so much the state budget as a group of people close to the authorities who became owners of untold wealth in the twinkling of an eye. For at the very beginning, the government forgot that under the Constitution, all natural resources belong to the sole source of power - the people. And actually, the people do not see the state budget really being filled, which, most importantly, would be appropriate to the state of affairs in the oil and gas industry.

For example, everyone knows about the problem of export customs duties (ECD) for crude oil. The ECD for oil in Kazakhstan was introduced in mid-August 2010. The tax was introduced for all oil exporters, except for those who had stability for this type of payment in the production sharing agreement. The duty on crude oil was originally \$ 20 per tonne. In January 2011, the ECD on oil was doubled to \$ 40 per tonne. At this time, it is \$ 60 per tonne in Kazakhstan. It turns out that in Kazakhstan the rate of the ECD is not only well below the same Russian rate (amounting to about \$ 400 per tonne), but is not tied to the price of oil on the world market.

Naturally, this issue (and other issues related to fair taxation) has been repeatedly raised by civil society and experts. But the tax burden is still there. All these trends are creating preconditions *for conflicts that have a social character in their basis*. But with the growth of public activity and their legal self-consciousness, these *conflicts, which cannot be solved over the years, begin to acquire a highly politicized nature*.

One of the undoubted achievements of Kazakhstan in the years of its independence, especially abroad, is the relatively liberal economic legislation and some progress in macroeconomics. But justice also requires us to note that a bunch of oligarchs close to the authorities, who privatized former public property and the best raw material enterprises for a pittance, benefited from the fruits of this liberalization. And vaunted macroeconomics did not bring obvious success to the real sector of the economy, while many of the basic indicators of economic growth are based solely on high prices for oil and gas. The global crisis of 2007-2008 demonstrated how unsteady this economy is. By the way, our government has still not announced its plan for the next wave of the crisis.

Reliance on income from the sale of energy resources also allows the authorities to solve social problems in one way or another, which in turn allows them to reduce the degree of dissent in society. But such moves appear more and more non-systemic. Against the backdrop of rising prices and tariffs, it is already a cause for the same growth of dissent in society. Over the years, the country has seen a monstrous division of society into the super-rich and the poor. More recently, reputable Kazakh economists acknowledged that the so-called decile ratio (the ratio of income between the rich and the poor) surpasses all conceivable limits and income differentiation reaches 29 times compared to 4.8 times in developed countries.

According to experts, the sharp differentiation in the social structure of the population of Kazakhstan is graphically illustrated by the structure of bank deposits. 50 per cent of all deposits in Kazakhstan fall to 0.1 per cent of depositors - this is according to the National Bank. And only 17 per cent of people have savings, and they are for immediate needs and circumstances. Average monthly wages in Kazakhstan, according to the State Statistics Committee, range from 103 to 517 dollars, while more than a third of workers have up to 310 dollars – this is 34 per cent.

It is clear that more and more ordinary Kazakhs begin *to wonder why they live in such poverty in such a resource-rich country?*

Everybody is aware of the bloody events of December 2011 when heavily armed police fired at peaceful and unarmed citizens of Zhanaozen in broad daylight. And the matter is not only that it is a city of oil workers, but that such conflicts are beginning to appear in other regions where there are raw material businesses. But our authorities had a chance to avoid bloodshed in Zhanaozen. Oil workers stood on the square for seven months and demanded that their labour rights be secured and purely social issues be addressed. A few months before the tragedy, my colleagues from the democratic movement and I visited the oil workers. The oil workers were ready for dialogue. It so happened that representatives of the employer, city leadership and delegates from the oil workers sat at the negotiating table. But with its reluctance to speak to its citizens on equal terms, the government did everything to disrupt the negotiations!

Given the specificity of the Kazakhstan reality, we could also name *legislative conflicts* when the Constitution and the laws do not take into account the diversity of political programmes and platforms existing in the country. The basis of the current political structure of Kazakhstan is the 1995 Constitution. It concentrates all power in the hands of the president. This initiative was presented to society as a pressing necessity in order to conduct urgent economic reforms. It should be noted that the then authorities spoke about these changes as temporary, saying that reforms will be carried out and then the powers between the branches of power will be restored.

But, unfortunately, this did not happen in almost 20 years after the constitutional reform. It is time to talk about a protracted transition period. On the contrary, despite the Kazakh government's periodic assurances about commitment to democratic values, the legislation regulating public relations is becoming tougher and out of line with generally accepted international standards.

The opposition field has been totally cleansed and independent media has been almost destroyed. It is impossible to register a public organization or a media outlet out of favour with the government in the country. As a result of all these anti-democratic actions by the authorities and the existing irremovability of supreme power in Kazakhstan, a real cult of personality of the incumbent president has taken shape.

And all these innovations are reflected in the new laws that are clearly repressive. This process continues today.

And in a situation where the parliament does not reflect the real balance of political forces and the existing pluralism, this trend will only increase because the executive branch, which is interested in the further usurpation of all branches of power, has full control not only over the formation of the parliament, but also over all legislative initiatives.

In undemocratic societies, the role of *shadow so-called inter-clan conflicts* that have a real impact on the political life of the country and its future dramatically increases. It's no secret that despite the super-centralization of power in the hands of one president, the country has become hostage to relationships between several groups of influence, which are self-sufficient and have the infrastructure necessary to come to supreme power: finances, property, whole sectors of the economy, banks, media and influence on political parties. These relationships are becoming topical against the background of the post-Nazarbayev period expected in the country. Will the economy and political life of Kazakhstan withstand a "second Nazarbayev" - that is the question.

We are saying that now, with all the levers and mechanisms, the incumbent president should begin the process of political reforms that would lead to the creation of a system of checks and counterbalances between the branches of government: limit the powers of the president by strengthening the parliament and the government, form an independent judicial system and create a real competitive political environment. Unfortunately, there is no tangible progress in this direction in the country. On the contrary, the country is openly debating a successor to Nazarbayev. They are talking about persons, while the authorities prefer not to talk about institutional changes.

The availability of rich energy resources is not only prerequisites for the so-called "Dutch disease". As we, Kazakhs, say "мұнай қазақтың бағы да, соры да", i.e. "oil is our blessing and grief." And it's not just monstrous injustice in the distribution of revenues from natural resources. The thing is that the interest of the developed democratic countries of the West in the production and sale of Kazakh energy resources does not allow them to be more principled and consistent in protecting fundamental democratic freedoms in our country, in criticizing the country's leadership for backsliding towards authoritarianism and failing to honour their democratic obligations.

In this sense, most Kazakhs are completely disappointed in the behaviour of international democratic institutions, which now are actual "diplomatic lawyers" of the Kazakh authorities.

### **Conflicts of interest in determining the priorities of external relations**

When defining the priorities of the foreign policy of independent Kazakhstan, the multi-vector nature of policy was taken as a basis. At the initial stage of the establishment of independent Kazakhstan, it was quite justified. It was necessary to establish relations after the 70-year diktat of Moscow and define priorities in the new historical and geopolitical realities.

One of the stages of this behaviour was the *failed "Path to Europe"*. I mean the programme that our government so widely presented ahead of the discussion on Kazakhstan's presidency of the OSCE. For those who forgot, it was in 2010. So in 2007, during a meeting in Madrid, where the decision on the presidency was taken, the foreign minister made a statement about the readiness of Kazakhstan to

liberalize the laws on elections, political parties, media and local government by the end of 2008. They went down in history as the "Madrid promises of Astana".

Unfortunately, our government rudely and cynically deceived the OSCE: after taking over the presidency, they forgot about their promises the next day. And it should be noted that the OSCE itself was not particularly angry about this...

At the same time, two vectors of Kazakhstan's foreign policy intensified.

The *first trend* is associated with "Chinafication" of Kazakhstan's economy, especially its oil sector. Independent experts talked about the 40-per-cent share of China in Kazakh oil. The officialdom itself put the figure at 24 per cent, although in our case it is an extremely high figure that influences not only the direction of pipelines.

The *second trend* is associated with Russia and, of course, with the idea of the Eurasian Union.

The country has developed *a unique conflict situation in relation to this mega geo project*: all are against, including those who are not part of the opposition, especially small and medium-sized businesses, but only officials are "in favour" of it!

This situation goes far beyond the "oil and gas" sphere of the country. It affects other spheres of social life as well. This is domestic business, which is almost doomed to survival. The situation is that in the 23 years of independence, our government has supported and nurtured only businesses based on raw materials and has not taken special care of small and medium-sized businesses and is now literally throwing them into the arms of quasi-competition. It should be noted that even businessmen who were not previously seen in opposition are openly talking about this in the country.

It is especially important that the prices of goods and tariffs for public utilities became even higher, which is already reflected in the fall of the living standards of ordinary citizens. It should be noted that in Kazakhstan there are more and more people who want to have friendly relations with Russia, with which we have not only seven and a half thousand kilometres of common borders, but also close economic contacts, including in the energy sector, not on conditions of entry into a single union with supranational bodies, but on a bilateral and equal footing.

Like any other people, Kazakhs have a sacred attitude towards the concept of independence, especially now after regaining independence after the 70-year loss of sovereignty during the USSR. And everybody understands all the consequences of entering into an alliance with a country that is 10 times greater by a variety of indicators. And the Kremlin's actions against the independence and integrity of the territory of Ukraine and the Russian annexation of Crimea give reasons for us to have a maximum critical attitude towards the Eurasian Union project, especially as the Budapest agreement of 1994 proved to be ineffective.

It is no accident that powerful, truly popular opposition to the idea of the Eurasian Union is growing from year to year in Kazakhstan. Some would like to present it as a kind of Russophobia and fatal unwillingness to recognize the need for cooperation with partners, primarily with Russia. But the reason for this popular movement is different.

I have already mentioned some mainly economic reasons, especially as the first results of the Customs Union cannot be considered positive for the Kazakh economy and business. I should add that the reluctance to join a single union with Russia and Belarus also has a pronounced political character. The

issue is not only about the statements of a number of senior Russian officials about the establishment of supranational bodies and the possibility of introducing a single currency. That, in principle, is unacceptable!

The issue is also that in the minds of most Kazakhs, the current authorities of Russia and Belarus are not perceived as democratic and capable of ensuring pluralism and respect for fundamental political rights and freedoms. The Kazakhs have had enough of the irremovability of their own government!

I would especially like to note *a possible trilateral conflict of interest due to the work of major oil companies in Kazakhstan*. How will Astana behave amid the growing confrontation between the West and the Kremlin? I mean not only economic sanctions, but also possible reaction or change in the Kremlin's attitude to Western energy companies operating in Kazakhstan. Of course, Kazakhstan is interested in these companies, which have brought the country billions of dollars, not being hurt by the Russian side.

These and other factors related to the new position of Russia in the world and its aggravating conflict relations with the leading countries of the West allow us to make the following prediction: the more Kazakhstan integrates with Russia within the Eurasia Union, the further it will deviate from the European vector of development.

And this is a new conflict with the world outlook if you want, the civilizational choice of most Kazakhs who live in the country, part of which is formally in Europe, and who have chosen the European vector of development.

Astana's attitude to the *neighbouring Central Asian countries* can be determined by two factors. The first one is a kind of oil "show-off" when the attitude to countries that do not have rich natural resources is dismissive and arrogant. Such political arrogance, of course, cannot suit these countries. The second point is the excessive personalization of foreign policy when priorities in relations were determined not by economic or other kinds of expediency but by the personal likes and dislikes of the presidents of these countries. Apparently, this is the reason for their amazing volatility and pronounced subjective nature. Of course, there is also an energy context in these relations, but I would not call it decisive: conflicts here are in a completely different plane.

**Sub conflicts in this area can also include one pure Kazakh particularity.**

Here I mean one of the legacies of the Soviet ideological realities. Most people, including Kazakhs, love Russian culture and the language of Pushkin and Tolstoy. There is a whole layer of history reflected in works in Russian. But many in Kazakhstan are outraged that an ordinary citizen of Kazakhstan is forced to see events occurring in the world through the eyes of the Kremlin and the most odious Russian journalists and receive only one-sided interpretation of complex events taking place in this country. There is no impartial coverage of resonant events in other countries. This trend looks particularly vivid against the background of jingoistic propaganda in the state-run media about the idea of the Eurasian Union and the latest well-known events in Ukraine.

For despite the absence of a common border with the homeland of Shevchenko and Lesya Ukrainka, the Kazakhs look at the events in Kiev, Crimea and in the south-west of the country through the prism of inadmissibility of violating the independence of their own state and its territorial integrity. Hence, such a negative attitude to the one-sided and biased information policy of Russia.

And we must admit that the *internal information conflict*, when rank-and-file citizens do not want to watch soap political serials of state channels, is supplemented with such an *external information conflict* between those who presents biased information and those who are forced to get it.

Of course, Kazakhstan is able to ensure the presence of its own reporters in the hottest spots of the world. And there is enough money for that. But one problem prevents it: the lack of political will associated with the public (within the Eurasia Union) and non-public commitments of Astana to support the actions of the Kremlin and their corresponding (as we see, biased) coverage in their media.

## **Conclusions.**

In conclusion, *the role and place of oil and gas in conflicts is not absolute.*

There appear not only new sources of energy (such as shale oil and gas) in connection with which the geopolitical picture of the world is changing. There also appear new challenges of time, and energy reserves (of course, not immediately) cease to be the determining factor in the internal policies of states and international relations, a cause and a guarantee of avoiding potential conflicts.

Besides, any authoritarian government will find 99 reasons to constrain democratic processes and maximize its rule: whether it is a country rich in natural resources or a state that God deprived of such wealth. Each irremovable government has its own "truth" for its people. Various myths are created: from the need to change the Constitution for the implementation of urgent economic reforms to the exclusive role of an individual leader, who cannot be changed in any case!

It is clear that public research institutions have varying degrees of impartiality. This trend is particularly typical for post-Soviet countries. I will not give our forecasts, for we, the opposition, sometimes overly exaggerate. Therefore, we will take the most recent calculations of our State Institute KISI (Kazakh Institute for Strategic Studies under the President). They were published 10 days ago. Even such a highly affiliated research centre recognizes that "every tenth *Kaznet* user is ready to participate in mass protests."

And one of the reasons for protest is the very conflicts we are discussing today.

Of course, our government can deceive and comfort itself with such theses as "the Kazakhs are not ready for civic activity because the reasons lie in the political apathy of the population, fragmentation of society, the absence of leaders and fear of reprisals." Claiming this, the government must understand that "the political apathy of the population" they are talking about, as opposed to civilized forms of politicization, can lead to the most extreme forms of protest in one moment with unpredictable consequences for the country! "Fragmentation of society" has only the abovementioned nature of social stratification. Time creates new leaders, while the fear of reprisals cannot be so durable.

We must not forget that the same pro-government analysts pointed out that "if the situation deteriorates and the state does not react to the social needs of the population, online activity may move into offline space and become an unmanageable process."

This means that the topic of conflicts, the root cause of which is not only energy, but also other challenges, will continue...

## Russian-Style Political Rent, or the Price of a Conflict in Barrels

### Introduction.

The main news of the Russian political-economic reality came together with the Ukrainian crisis. That probably proves the rule of ancient medicine "After does not mean as a consequence." For the first time since 2003, the coefficient of the 120-day correlation between the index of the Moscow International Currency Exchange and the price of Brent crude oil in March dropped to -0.2. This is data from Bloomberg. What does this mean? The coefficient of this correlation ranges from 1 to -1. It shows the relationship between financial activity and oil prices. In the entire recent period, it has fluctuated at around 0.4. After the Crimea, as we have seen, it went into the negative zone. Meanwhile, oil prices themselves do not seem to give any reason for this decline. They are not rising above \$ 110, but are not falling below \$ 100 per barrel either, and last March was such. In other words, oil, based on this measurement, no longer looks like the engine of the Russian economy, as we are used to it, and as it is in many ways. Given that the distribution of the rent between the state and the extractive companies is clearly skewed in favour of the latter, revenues from oil exports last year amounted to nearly 174 billion dollars with the total revenues of the budget being 415 billion dollars. Oil and gas revenues in the current year are almost 9 per cent of GDP. The figure, however, has been slowly declining, but this decline is unlikely to have a serious relation to the official assurances that Russia is getting rid of its addiction to raw materials. It is something else: there are problems with the addiction itself and the technique of its operation.

### Conspirology of oil prices

The fact that all this happened in the midst of the Ukrainian crisis is symbolic, but hardly has a direct and specific relation to it. More or less tangible, though not fatal signals of the possible departure of investors are beginning only now that the crisis is perceived as protracted even by optimists who believed that it was not for too long.

Perhaps, the abovementioned coefficient of correlation is an indicator of the general crisis of the political economic model, which required an excuse for alarming redness and in this case, it came opportunely.

In fact, there is probably no direct response and direct link between the energy policy and conflict essence of the Russian political process. Nobody will seriously confirm that while planning its exercises on its Caucasian or Ukrainian borders, the Kremlin is studying price charts from the Commodity Exchange. But the indirect connection is undeniable and immutable.

A similar story happened with the dynamics of oil prices, which also see colourful coincidences. Vladimir Putin came to power just after prices in 1999 reached the tragic \$ 10 per barrel<sup>139</sup>. And then under him, with a few exceptions, oil (and gas) only steadily grew. Prices slightly dropped in 2002, falling to twenty dollars from thirty a year earlier. And by the way, even against the background of the Chechen war, political doubts and reflections were still not alien to the Russian authorities. For example, Yevgeniy Yasin once remembered that he had hopes until 2003. In 2003, prices start their meteoric rise, at the end

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<sup>139</sup> Динамика цен на нефть с 1990 года, ТАСС, 14.11.2014 <http://tass.ru/info/1572991>

of the same year, Khodorkovsky was arrested. In parallel with the oil price, the personal rating of the president skyrocketed, and in 2008, oil hit the 130-dollar ceiling, and another coincidence was South Ossetia. It was followed by a crisis and downturn in 2009, which in fact turned out to be only a tough adjustment because there was a rise again to Ukraine and the Crimea...

The fetish of coincidences gave the world a lot of good literature, including political, like the dependence of wars in the Caucasus on the rhythms of the controversy about pipelines. In fact, in all this collision, everything is somewhat more complicated, and there are so many different plots in it that even the most conspiratorial ones pale in front of it.

On the one hand, these coincidences are really interesting - exactly to the extent to which our plot is full of personal motives, and history rarely happens without them.

### **Stages of the small path**

It would not be entirely accurate to date the establishment of the current Russian government to the turn of centuries. First, its evolution has gone through several stages. For example, the stage of the same reflection that lasted until 2003. Then there was a stage which can be called the Yukos stage when the authorities tried to determine the boundaries of what they can afford in domestic politics and in relation to the political elite. They did not resort to a conflict with it, that's the problem, on the contrary, they denationalized it and this term will then be legalized to act as a united front against those whom this elite also considered its enemy. The authorities, by the way, generally managed to avoid conflicts in the elite, Khodorkovsky and other smaller cases like the story of Mikhail Gutseryev's RussNeft.

In short, this stage ended with the achievement of complete clarity just by 2008 when the country had to be temporarily left to a new president. Formally, with the new leader, the country launched a major offensive in the South Caucasus, after which everyone started talking about a fundamental change in the rules of the game, and so it was.

And finally, 2013 with the Maidan probably finally shaped the genre in which Moscow declared its strategy for the further game.

Do oil prices also affect this chronology? To some extent, of course, they do. Are they strategic? Hardly.

### **Miracle of exports**

Some researchers believe that the oil economy is important not in itself, but in the correlation of available stocks and scale of the population. In other words, oil production per capita is essential. And, of course, Kuwait with its 352 million barrels per capita does not compare with Russia (26.45) and Azerbaijan (36.21)<sup>140</sup> And by the way, a comparison of the list of the most oil-producing countries with the registry of GDP per capita, in general, does not seem to provide too sensational difference. The sheikh countries here are in the lead too and can interchange in the top three. Qatar can let Kuwait ahead.

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<sup>140</sup> В среднем россиянин владеет нефтью и газом почти на 165 тысяч долларов. РИА Рейтинг. Агентство РИА Новости 19.03.2013 [http://www.riarating.ru/countr2013ies\\_rankings/20130319/610546931.html](http://www.riarating.ru/countr2013ies_rankings/20130319/610546931.html)

Perhaps, two things are important here. Norway still remains in the lead - with a very different political and economic model. And no matter how much oil the Emirates extracts, they will not be able to push the northerners from the first step because they surpass them in the GDP race by 30 per cent. And second: countries like Russia and Azerbaijan will continue to remain in the middle.

This, of course, is related to per capita production. But it is not direct.

It is assumed that according to all the laws of materialism, the oil economic base determines the political superstructure. It is this view that the fetishization of oil prices and the already mentioned coincidences, which acquire a true dramatic nature in the hydrocarbon context, are based on. And this is largely true.

The Russian case proves all the theoretical foundations of the petro-states in the most obvious and scientifically confirmed way because the symptoms and consequences of the disease called Dutch disease have been studied and relevant works are classic. The oil curse replaces democracy since the masses prefer a government that will provide them with the social minimum without any elections. The nominal per capita incomes of Russians have been growing over the past 14 years almost by the hyperbole – from 2,000 roubles to almost 23,000 roubles in 2012. With real income, everything is a little less impressive. The dependence is linear: since 2000, the straight line has been steadily moving upwards, reaching 140 per cent in 2012 compared to the level of 1991<sup>141</sup>.

However, if we talk about coincidences, the growth in the incomes of Russians corresponds not to the dynamics of oil production. Here, since 1999, almost an explosive growth has been observed. 5.5 per cent per year, then 7.9 and finally, in 2003, 10.5 per cent. However, after 2003 a decline began. First the growth is just 5 per cent. And all subsequent years it does not exceed 2 per cent a year, and by 2009 it fell to 1.3<sup>142</sup>.

But there is a parameter that has been progressing by the same hyperbole on which the nominal income is growing, and this parameter is oil exports!

It was in 2003 that a powerful leap began, which reaches a peak of around 100 million tonnes by 2008. And then there was a sharp decline of more than two-thirds - a crisis, and again 2009 saw the beginning of a great leap and almost recovered volumes of 2003 in the region of 90 million tonnes<sup>143</sup>.

### **Dutch disease. The post-Soviet version**

This is what the classic of petro-political science teaches us: the abundant resource rent, to put it mildly, does not stimulate the state to ensure strict observance of fiscal discipline. The state is not very interested in taxes from citizens engaged in work that is not related to the oil and gas sector, which already provides almost half of all budget revenues in Russia. This, in turn, works for an additional corruption component, since tax evasion is one of the most popular corruption schemes in the country, including in exports,

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<sup>141</sup>141 Динамика среднедушевых доходов населения по Российской Федерации. Обновлено 22.05.2014.  
[http://www.gks.ru/free\\_doc/new\\_site/population/urov/urov\\_11g.htm](http://www.gks.ru/free_doc/new_site/population/urov/urov_11g.htm)

<sup>142</sup> Ольга Березинская. Несмотря на рекордные мировые цены, добыча российской нефти замедляет свой ход. ВЕДИ. Аналитическая Лаборатория [http://www.vedi.ru/industry/ind0405\\_r.html](http://www.vedi.ru/industry/ind0405_r.html)

<sup>143</sup> Экспорт нефти из России. <http://newsruss.ru/doc/index.php>.

which is growing regardless of production in conditions of this model, and at this point, it is necessary to rely on statistics cautiously as the process cannot be transparent by definition.

And all that is not based on a social contract, even in the most unpretentious form, is fraught with conflict. Once, during the holy conquests, external conflict was primary, and now the beginning of everything is more often the internal conflict. In Russia, the export bonus is a rather illustrative result because the focus of this technology is the manipulation of elites.

Dutch disease is the maintenance of the rate of national currency with only one sector of the economy - everyone knows that. But in Russia there is one particular result, which is not well-known in the Netherlands, Norway or the Arab world - the pure Russian process of forming elites.

If, for example, in Kuwait, this process is formalized by the very structure of the state, in conditions of controlled democracy, as the political model of domestic policy common in the post-Soviet area is called – it is the relentless confrontation of elites. As is well-known, intraspecific confrontation is particularly acute, the main struggle in Russia: Rosneft against Gazprom, everything is being used – up to accusations of sabotage against the "shale revolution" that is allegedly occurring worldwide, in which the information generals of Igor Sechin accuse Aleksey Miller. But within the framework of the general opposition, battles of the lower level do not subside either and only the need of cold peaceful coexistence keeps this market from mass and unfriendly mergers and takeovers.

British political scientist Richard Sakwa characterizes the Russian commodity market by two coordinates: economy of control and politics of rent. "The abundance of natural resources does not uniquely identify the political results arising therefrom. Classic recipes that make it possible to cope with resource wealth are based on sound macroeconomic policies, economic diversification, sterilization of the resource rents combined with openness and accountability. All these measures, however, have a limited effect and suggest the presence of a smoothly and clearly functioning state, which many resource-based economies simply do not have," he writes in his book<sup>144</sup>.

This is where the further Russian evolution of the "oil curse" is taking place. On the one hand, a resource-based economy as commanded by classical studies encourages neglect of democratic institutions. On the other hand, in the absence of a formalized system of undemocratic relations and real tight tyranny, the process evolves not always predictably, but rather through trial and error. As a result, quite a logical trend emerges.

### **Modern history of the rent**

The resource-based economic model does not determine the model of the political system in any way. Similarly, oil itself is not a source of conflicts. Theories are fairly common that in the case of Russia things are still not so hopeless because it could have been as it was in Nigeria. Roughly the same thing was said during the acute phase of the Balkan crisis: the Soviet Union collapsed quite safely compared with Yugoslavia. And no eschatologist undertakes to describe what could have happened to Russia in the Nigerian scenario.

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<sup>144</sup> Richard Sakwa The Quality of Freedom. Khodorkovsky, Putin, and the Yukos Affair, Журнальный Зал.  
<http://magazines.russ.ru/nz/2010/6/sa9.html>

In fact, oil has nothing to do with it, and Russia has its own resource-based way of development just like the USSR at that time could not repeat the Yugoslav way for very specific historical and political reasons. This, however, does not mean that it is not fraught with dangers. It does. And they are very serious. But oil and gas will not play a decisive role in this process.

The evolution continues and, as noted by Vladimir Mau in the article "There are no islands of stability based on the oil rent",

"the turbulent decade, which began in 2008, continues." "One of the easiest (and not necessarily wrong) explanations links the changes that have begun to the achievement of a certain level of socioeconomic development in the Arab world. If all the great revolutions of the past (from Britain to Mexico and Russia) occurred in countries with a per capita GDP level of \$ 1,300-1,500 (international dollars of 1990), achieving a level of about three times higher (about \$ 4,000-6,000 ) creates preconditions for the crisis of authoritarian regimes. About a quarter of a century ago, you could add: also transition from authoritarian to democratic regimes, as Samuel Huntington believed in his book about the 'third wave' of democratization. Now we know that the path to democracy is thorny."<sup>145</sup>

This partly relates to the Russian evolution. And by and large, maybe it is not always justified to divide this evolution into what was before and after 1999. Although the irony of representatives of Yeltsin's generation about current stability is also justified: I wonder how they would have built their stability with oil prices of \$ 20 per barrel.

The talk is about the rent and its distribution. Maybe, the determination of its desired Russian formula is a key political process, whose history is largely its modern history.

### **Official changes his/her skin**

Here we must return to tradition and recall again that the objectivity of economic laws is very diverse with the subjective feelings of the government that is lucky with deposits.

The fortune of the 1970s discovered by the Soviet Union in the depths of West Siberia could have filled the atheistic souls of the then rulers with quite religious confidence in the omnipotence of the only true doctrine. Many researchers generally consider the oil crises of 1973 and 1979 to be the turning points of the time. Yegor Gaidar says in his book "The Fall of the Empire" that the decline in oil prices by more than 6 times in 1986 became a "catalyst of Soviet economic collapse" and the subsequent collapse of the Soviet Union. It declined, as you know, after the peak of 1980-1984, as many researchers, including Gaidar believe, not without the efforts of Saudi Arabia. But if this is so, then the irreproachability of the approach, according to which cheap oil killed the Soviet Union, is distorted by other logic: the anti-Soviet demarche of oil producers was due to the war in Afghanistan and, it turns out, it is a very big question what came first - oil or Afghanistan.

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<sup>145</sup> Владимир Мау. Остров стабильности, в основе которых нефть, нет. Forbes, 31.03.14  
<http://m.forbes.ru/article.php?id=65728>

On the other hand, Afghanistan itself was largely due to the unprecedented political self-delusion that overwhelmed the Soviet leadership amid the oil boom. History seems to repeats itself to address the dynamics of oil prices again.

Independent Russia inherited from the Soviet the structure of centralized management of all sectors of the resource-based industry - production, transportation, processing and export. In fact, sectoral ministries were holdings, and the conversion of the relevant ministry into Gazprom was only naming things by their proper names. The 1990s were a time to find a compromise between the different players on this market. Georgetown University professor Thane Gustafson – a renowned expert on Eurasian energy and economy, who devoted over 35 years to the study of Russia and the former Soviet Union, said in his book "Wheel of Fortune: The Battle for Oil and Power in Russia" that companies currently engaged in oil production in the Russian Federation were baked like "hot cakes" in the 1990s. "They randomly merged, so you cannot find logic in the structure of modern Russian companies."<sup>146</sup>

The main privatization of those years was not even the privatization of wells, but the privatization of the official who dealt with issues, chipped in and adapted to the market. And he adapted the state to the market, acting as two entities - government and business - at the same time. The pinnacle of this process was the mortgage auctions, which resulted in all the main property of the country being in the hands of those who later became known as oligarchs.

The 1990s were not a time of competition between business and government, the government found itself in business by the rules it accepted from business with pleasure. It was not very good, but you had to wait for volte-face and see how it is when everything happens the opposite way.

The division of the rent was a deeply negotiated process, and even where it was formalized, it easily succumbed to corrupt improvisations. In short, the structure of the resource-based economy after the change of power at the turn of centuries and its structure did not fundamentally change. Only the principles of rent distribution changed.

The state openly called it "denationalization of the official." It did not nationalize anything, reasonably believing that it cannot cope with a businessman's business better than the businessman himself. It is just that now this businessman, as the official once did, is changing his/her skin in the opposite way. This is the answer to the question as to why in centralized Russia, the distribution of oil rents is so skewed not in favour of the state, as it seems logical, but in favour of oil companies. Owing to this, in particular, the state can manoeuvre with the money, which formally remains at the disposal of private traders, but in fact can be claimed by the state at any time without getting directly into the budget.

### **The oil code of state honour**

Thus several problems, including those related to conflict management, are solved because the conflict in domestic policy is permanent, occasionally breaking into the public sphere. No one has any questions about the opacity of financial flows. In a state, which, unlike the budget, does not bear any responsibility in the financial sector, it entirely lies with controlled oligarchs, and it can spend it on any of its undertakings at any time.

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<sup>146</sup> Владимир Гельман. Что мешает России- нефтяное проклятие или Советское наследие?  
[http://slon.ru/books/neftyanoe\\_proklyatie\\_ili\\_proklyatie\\_proshlogo-874453.xhtml](http://slon.ru/books/neftyanoe_proklyatie_ili_proklyatie_proshlogo-874453.xhtml)

Researchers of the political regime of Belarus claim that during the years of the current political regime there, along with the official budget, there was a second unofficial budget comparable to the first one in scale. It is nothing unusual as any regime building relationships with the population without excessive democracy is concerned about the problem of free money, and it is both the water to extinguish conflict and fuel. Imbalance in the distribution of the oil rent in favour of private traders gives the regime greater flexibility than in the second budget option.

Finally, the third task, which is even more important in the structure of such regimes: control of the elite.

In this regard, the Khodorkovsky case was, indeed, not only a turning point, but also, as shown by further practice, determined things for a long time. Even out of prison, Khodorkovsky cannot afford drastic steps that many opponents of the regime expected from him. It was the outcome of the Yukos affair that became the last argument in the debate between business and government, which Khodorkovsky led as the first person. After this, there was no need to persuade anyone to play by the new rules.

Such a system of political relations dictates the appropriate style of conflict.

Rosneft spent an average of 2.8 dollars per barrel on oil production – to the envy of BP the cost was from 6.4 dollars and ExxonMobil – from 10.3. Another 6.8 was spent on transportation. And \$ 51, i.e. 84 per cent of spending, is the tax on the production of mineral resources and the export duty<sup>147</sup>.

The whole fancy formula of distributing the oil rent, which becomes political in this scenario, lies in this correlation, and nobody hides that. In fact, despite the fact that the system of relations between business and government has changed, one principle has remained in it: *these relations are informal, and the state may change the rates and rules at any time*. That puts business in a cautious position at best and any step of the government causes a counter-step even on the part of loyal business.

### **Is oil suitable for extinguishing a fire?**

According to Russian Forbes, the net private capital outflow from Russia last year amounted to 84.2 billion dollars. In the first two months of this year, according to preliminary estimates, 22.5 billion were gone, and this does not include the increase in the proportion likely to happen because of the Ukrainian crisis<sup>148</sup>.

The same Forbes, however, is against dramatization, citing an argument of Bank UBS: against the background of other oil-producing countries, Russia is far from being the most unfortunate case.

But with the outflow of capital in the context of resources, there is one fundamental caveat. Oil business is the fate of very few lucky ones. According to the Oil of Russia portal, the entire oil and gas sector employs about 1.6 per cent of the active population, while the wages in it are not the highest in the

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<sup>147</sup> Евгения Корытина Нефть по 3 доллара, РБК, 01.11.2010 <http://www.rbcdaily.ru/industry/562949979132125>

<sup>148</sup> ЦБ: чистый отток капитала из РФ за 2011 составил 84, 2 млрд долларов РИА Новости 12.01.2012 <http://ria.ru/economy/20120112/537599843.html>

country. And the numbers are declining. The 667,000 people who worked in the oil sector in 2000 will fall to 640,000 in 2020<sup>149</sup>.

As estimated by UBS analysts, the concentration of income in relatively small areas of employment is common for oil-producing countries. A small amount of extractive companies (and their number is regulated by the state for quite pragmatic reasons) leads to the concentration of savings in the narrow circle of lucky people. In OPEC countries, this figure reaches 44 per cent of GDP and in Russia - about 30 per cent.<sup>150</sup>

The correlation of these parameters with the scale of capital flight is not accidental. Large savings require reliable storage and safe investments, maybe even more conservative. Accordingly, the more capital is accumulated in the hands of one person, even taking into account the reinvestment, the more the proportion of "excesses" accumulating outside the national economy.

And not only for Russia, but for all, perhaps, oil-producing former Soviet countries, *it is a source of serious political conflict*. The oil economy allows the authorities to respond to the social demands of the population, and they do. But economic logic compels the same authorities to respond to social challenges solely on the residual principle.

That is, perhaps, the germ of any crisis, but the resource-based factor, as usual, makes it worse. The more the government becomes bureaucratic, the more it distributes the oil rent in its own favour and the more officials and businessmen are dependent on the government, the boundary between which is becoming increasingly blurred, the more their demands grow, to which the authorities should respond by continuing to fund the population by the residual principle. An internal state forms within the state, in which there are very different standards of consumption, but the money pillow is distributed across the country anyway. The population in nominal terms becomes richer, but due to the predominance of the resource-based style and disparities in income redistribution, pricing is distorted, which baffles even foreigners who have seen a high cost of living.

### **The last motive**

The oil economy is sometimes considered a source of internal social conflicts – it is because of the nature of redistribution of the rent and the small number of people employed in this field. And, of course, oil is considered a source of external conflicts.

As far as internal conflicts are concerned, the post-Soviet reality very impressively illustrates where the reality is and where myths are, like the already mentioned coincidence of peaks of military-political tensions and the construction of pipelines. Around the same vein, it was fashionable in the late 1990s to explain the war in Chechnya - rivalry between the Baku-Ceyhan pipeline and the Russian route for Azerbaijan oil. In fact, there was and could be no rivalry. First, owing to the different genres of

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<sup>149</sup> Виктор Мартынов, Я б в нефтяники пошел, *Тенденции занятости в нефтегазовом секторе* Нефть России N.1, 2004, <http://www.oilru.com/sp/1/28/>

<sup>150</sup> Олег Брагинский, Цены на нефть: история, прогноз, влияние на экономику. Рос.Хим.Ж.,2008, м.ЛII, N.6 <http://www.chem.msu.ru/rus/jvho/2008-6/25.pdf>

transportation, because Russia offered a much more local scale. And second, because of the different weight categories of projects as the way to Ceyhan looked compared to the Novorossiysk alternative as a European Cup against the background of the Russian championship.

Chechnya was also explained as a struggle for Chechen oil. As the Grozny train station was cleared of land mines in 1995, I personally saw documents about forwarding wagons carrying Grozny oil to Odessa signed by Russian Deputy Railway Minister literally on the eve of the invasion in consultation with sovereign Chechen colleagues. That is to say, first, there was no special conflict around oil and its transportation, not to mention the fact that in the happiest Soviet times Chechnya did not produce more 4-5 million tonnes per year, while by the mid-1990s production, like all post-Soviet production, dropped substantially.<sup>151</sup>

That is to say these volumes deserve the attention of an individual official or a group of officials, but are not a cause for war. Today's debate over Chechen oil is also insignificant. Simply, it is important for both parties to consolidate their right to own and manage oil, although revenues from it are not something fundamental compared to budget bonuses.

But aggravating contradictions and giving them a more tangible form is another matter, and this is the particularity of oil in all internal conflicts. It's secondary like a motivator, but like induced radioactivity, it itself can look like a source of poisoning.

### **The close horizon of power**

By and large, it is the question of the distribution of the rent, which is correct from the government's point of view, that formed the basis of the Yukos affair. It was only afterwards that all its property was divided in accordance with the interests of individual players. But the impetus was that everyone was supposed to accept the new rules of the game.

Where else was the decisive battle to be played out if not in oil? Gas in Russia was not privatized, and everything else, including metallurgy, is not such a source of rent not to mention the fact that it requires constant modernization and reinvestment. Oil, of course, also requires them, but from the point of view of immediate impact, it is not so sensitive to their deficit.

With regard to global conflicts, judging by the ratio of military activity in recent years and oil prices, their interdependence also looks somewhat exaggerated - unless, of course, we are talking about individual cases like the possible closure of the Strait of Hormuz. Something like what happened in 1956, during the Suez crisis of 1973 or even during the invasion of Kuwait by Iraq in 1991 is no longer observed. Oil prices change in the rhythm of political arrangements, or for more or less objective economic reasons. That is to say oil is not the primary stimulus for a conflict, but as the conflict affects the price environment, the oil story in the conflict begins to live its own life, especially when it comes to an oil-rich region, the Middle East or, say, Venezuela.

Russia does not even claim a global conflict in this matter. Its resources are sufficient only to support, adapt and coordinate efforts with OPEC countries. But there is also a smaller scale, and here oil, not being the deciding factor, acts as a subjective factor.

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<sup>151</sup> Добыча нефти в Чечне <http://newsruss.ru/doc/index.php/>

The government, achieving the *optimal level of rent distribution*, was able to convert it into powerful *financial and political streams*, which allowed it to carry out a number of global projects like the Olympics and answer the most critical social challenges at least in sensitive sectors of the population. Due to these streams and schemes, the resource base for which is the implicitly redistributed rent, the institution of so-called corporate social responsibility was largely formed, in other words, a huge informal tax for the right of colossal windfall profits, which creates a conflict in itself, but not today. A government arranged on the basis of the rent cannot afford to look far into the future and because the horizon is limited not so much to political cadence as to the end of another major project.

That was until this year.

### **A short list of good forecasts**

The Ukrainian crisis may be a sign of change in the strategic approach. The government, being on the verge of technological and economic crisis, turned to the traditional Russian method of solving problems - expand the boundaries of its political and economic functioning and use the confrontational resource.

Perhaps, from the elite's point of view, the stage of compromise in relations with the West has exhausted itself in terms of enrichment. The maximum possible level has been achieved and the level of possible resource expansion to the West has stabilized, and can only drop in the future. The degree of the economic integration, which gave the Russian elite the opportunity to increase revenues, also looks like a limit. This global stabilization occurred somewhat earlier than the possibilities of making excessive profits in Russia ran out, and for businesses oriented to fast bonuses, including due to their proximity to the government, there are still no alternatives. And even sanctions do not frighten them yet.

Therefore, Moscow, which could theoretically face an internal conflict after some time with the previous developments, pursues a preemptive tactic.

But it is very easy to slide into mythology here as well.

It is very fashionable to compare the collapse of the USSR and the current problems of Russia due to the oil curse. In fact, even this threat still looks conceptual and theoretical. The collapse of Russia. Patriots, as always, tend to panic, while modernizers are traditionally too optimistic. Neither oil prices nor markets will collapse overnight. There is enough internal stability for the government not to be afraid of the repetition of coincidences of the mid-1980s. And it is the growth in this stability that the government counts on, conducting a conventional operation to raise national pride. And right now as long as oil prices allow them to think about the possible spending of the stabilization fund without undue drama.

The approach from a political point of view seems to be quite pragmatic. The government loses nothing for the reasons described above - at least, it may be confident that the inertia of the oil rent will allow self-sufficient operation.

The problem and contradiction is that the expansionist project can be successful for the government only if it is durable enough. But, unlike the Soviet government, which saw itself strategically, the current government *is not too prone to long-term political philosophy*. And it believes too much in the magic of oil prices and resource factor in general. But this is the way it should be. Oil is not primary and is not an objective category as a major political and economic engine. But as something secondary, induced and subjective, it is so strong as a factor that the error is not fatal. Not least because it is not immediately

detected. And there is still nothing different, which means that the genre of the state and its conflict nature remains the same. And there is enough oil for that. There will be no war. But the set of good predictions seems to end here.

**Togrul Javarli**

## **This Changeable Oil Factor**

### **Introduction.**

Oil has played an exceedingly high role in the modern history of Azerbaijan, predetermining many circumstances both in the internal political life of the country and in its foreign policy. Looking back on the 20 years that have passed since the signing of the Bishkek ceasefire protocol, it is almost obvious that the oil saga and the Karabakh settlement have always developed in parallel. However, at critical points of the modern history of Azerbaijan, they intersected, and at these points, the influence of the oil factor on the Karabakh settlement became quite noticeable, if not decisive, but only in order to return to parallel development. Moreover, if the oil development of the country has been progressive for all these years, the settlement process has been very uneven. Phases of some enthusiasm and optimism, when it seemed that the solution has almost been found, changed into years, in which the entire process froze and trod water.

### **Oil factor in early independence period.**

Here we will take those time periods when the Nagorno Karabagh conflict settlement and the oil factor intersected quite definitely. These are 1993-1994, the period between 1998 and 2001 and from 2005 to the present time. This division is, of course, somewhat arbitrary. It is more correct to talk about the impact of the oil factor on the entire set of problems related to the security of the country – political-military and political-economic, which had an intermediary effect on the Nagorno Karabagh settlement process. But it will help to assess the impact of the oil factor more fully.

The first Western oil companies appeared under President Mutallibov. It was a kind of reconnaissance and assessment of opportunities, especially as most of the oil fields in the Caspian Sea and their reserves had been quite well-known since Soviet times and Western companies sought to enter the Caspian for a guaranteed profit. President Ayaz Mutallibov showed clearly pro-Russian orientation in the two years of his rule in the country. The then leadership of SOCAR, of course, maintained negotiations with these companies. But Mutallibov did not hurry it, knowing that it might irritate Moscow, on which the "pacification" of Nagorno-Karabakh largely depended. And Moscow periodically played up to them as was the case with Operation Ring. It is interesting that Mutallibov was fully immersed in internal political problems, especially in building relations with the opposition. So under him the chance of implementing oil contracts with foreign oil companies was extremely low.

The Popular Front government, which succeeded Mutallibov and was in power from May 1992 to June 1993, understood what big role the conclusion of oil contracts could play in ensuring the independence and security of Azerbaijan. Azerbaijan, like Armenia, was part of Russia's sphere of influence and could be subject to military and political manipulation by the northern neighbour. Oil was believed to be a road to independence and a chance to weaken Russian diktat.

The willingness of the President Abulfaz Elchibey government to sign these contracts was obvious on the background of such demonstrative visits as the visit to Baku by former British Prime Minister Margaret Thatcher. Contracts had to be signed in January 1993. And, in principle, it was possible. However, members of the then government decided that the contract should be signed on more favourable terms for Azerbaijan (the matter was about the distribution of the share of profit oil between foreign oil companies

and Azerbaijan, the inclusion of provisions relating to future oil processing in the text of the contract, etc.). The Popular Front government hesitated with the discussion of points of the contract. New work on the text of the contract began and its signing was postponed to June 1993. These few months turned out to be fatal for the Popular Front government. In May, Surat Huseynov raised a mutiny and the government actually surrendered under pressure from the rebellious colonel. Heydar Aliyev, an experienced politician who was aware of the political situation, came to power. He knew even better what huge role the conclusion of an oil contract on deposits in the Azerbaijani sector can play for the security of Azerbaijan.

### **Heydar Aliyev's "chess" moves.**

In June 1993, the government changed in Baku. Heydar Aliyev, who took the post of speaker of parliament, became the country's de facto leader. Elchibey was removed from power and left Baku, settling in the Nakhchivan autonomy. Fierce fighting was under way at the front. During the summer and autumn of 1993, Azerbaijan lost six more regions of the country with the involvement of Russia. The negotiating framework for Azerbaijan considerably narrowed. It was at this point that such words as "the internal borders of Azerbaijan", "safety zone" or "security belt" around Nagorno-Karabakh, promoted by Moscow, appeared in the political lexicon. In autumn 1993, Heydar Aliyev fully legitimized his power and was elected president of the country with high enough support from the population. In the autumn of the same year, an attempt was made to launch a counter-attack in Kelbajar District. Successful initially, it was badly planned from a military point of view and got bogged down by January 1994, leading to heavy losses for the Azerbaijani army.

The year 1994 turned out to be incredibly rich in events that largely determined the future of the country. It was then when the oil factor turned from an economic factor into a political one for the first time.

The start of the year was as severe as the end of 1993. In early April 1994, Armenia launched a major military operation to capture Tartar and Barda in order to strike in the direction of Yevlakh with the aim of cutting the western regions from the rest of the country and approaching Ganja directly, threatening to capture the second largest city of the country. According to the plans of the Armenian side, the success of this operation guaranteed the surrender of Azerbaijan and the actual secession of Karabakh from Azerbaijan. However, after a month of bloody fighting, the Armenian side lost several dozen armoured vehicles, over a thousand people and was able to capture only a few villages. It was the biggest defeat of the Armenian army, which was exhausted and was forced to give up any offensive operations.

Therefore, by May 1994, Armenia agreed to sign a ceasefire agreement without any preconditions (which were previously put forward all the time). The Bishkek protocol signed on 14 May was to be followed by the signing of a greater political agreement. In Azerbaijan, the Bishkek protocol was perceived by the opposition in the country as defeatist. There were quite powerful protests quelled by the police. Everyone remembers the heated debate over who signed this protocol. Nobody wanted to take extra historical responsibility. Although in fact, by that time Azerbaijan had an exhausted army that could not continue to fight. Aliyev's consent to sign the Bishkek protocol had another important reason - only the signing of the Bishkek protocol could clear the way for oil contracts with Western companies.

In 1994, the political experience and incredible flexibility of Aliyev fully manifested themselves. The difficult situation at the front was supplemented with the presence of serious opposition both outside and inside the government, and the end of the year was marked by political assassinations and a new attempted armed coup in the country. Originally, Aliyev tried to link the issue of signing oil contracts with a great political agreement on Nagorno-Karabakh (GPA), believing that it would ensure a balance between the interests of the parties that had maximum impact on the situation in the country.

When it became obvious that no great political agreement would be signed, Heydar Aliyev decided to speed up the conclusion of oil contracts. Heydar Aliyev spent all summer 1994 in intensive negotiations with Western countries and the regional triangle - Russia, Iran and Turkey - trying to sign a contract on Azeri-Chirag-Gunashli at all costs.

He was already aware that the mere signing of oil contracts was unlikely to directly affect the Karabakh settlement. But, of course, Heydar Aliyev himself was well-aware of the huge role the oil contracts could play in maintaining the security of the country had they been signed. Obviously, it was a question of security in the broader context - political, economic and military.

As a politician, Heydar Aliyev realized that it was necessary to play quickly. The opposition to him inside and outside the country was still strong. Everything was like fast chess where you are threatened with defeat if you think a little bit longer about your next move. What did he do for this?

First, on the eve of the signing of the "Contract of the Century" in September 1994, he achieved an actual consensus between the interests of all countries that joined the project. It was correct tactics, which made it possible to raise the oil contracts to the level of an international agreement approved by the governments of these countries. And it was very important: the coming years repeatedly witnessed how shaky the legal framework for the Caspian Sea can be. We dare to assume that with the wrong tactics, Azeri-Chirag-Gunashli could have been declared disputed as it was with Kapaz and Araz-Alov-Sharq. The signing of the "Contract of the Century" on 24 September 1994 closed the road to political and economic speculation on these topics.

Secondly, it became obvious to him that he should be the only partner for foreign oil companies, and time showed that he was right. This suited Western states and oil companies and was hardly liked by Russia, which perceived him as a weakened but experienced political player able to upset many of its plans. The fact is that in difficult conditions, major oil companies always find it easier to deal with an authoritarian regime rather than with a democratic one. In this case, the number of interest groups vying for the management of resources is reduced to a minimum. Dealing (in signing PSA contracts) with one ruler than with many political groups is also easier because the time for moving from signing a deal to the real desired result is reduced noticeably. Thus, to some extent authoritarianism became an inevitable "appendage" to the development of oil contracts. All other problems such as the democratization of the political system are postponed.

Everywhere, the ruling economic class does not want to give control over oil revenues to any other elite, whether it is opposition parties, political movements or even oligarchic groups close to the government. In the latter case, we see some group trying to enter the oil business from time to time, virtually on any conditions, just to be in the game. And they were knocked out of the game pretty easily. Also, during all these years of independence Azerbaijan never adopted an oil law that would allow private companies to enter this business more confidently. Thus, we see that from the very beginning, all economic groups in the country were cut off not only from the negotiation processes for oil, but also from all financial flows associated with oil. And it also determined the nature of economic management for many years ahead.

According to many political analysts, until 1998, Heydar Aliyev was occupied exclusively with the creation (recreation) of statehood, which was significantly weakened by the dramatic events of the early 1990s. Azerbaijan's positions on the diplomatic front are being restored inch by inch. Of course, the oil factor starts playing its own role. Thanks to oil contracts, infrastructure began to develop and first money in the form of bonuses and investment started flowing into the country, while the pumping of oil from

ACG to Western markets began in 1997. The work of oil companies requires a lot of services, the construction of new roads and rent infrastructure for the oil companies that appeared in the country. The economy was set in motion.

But in the economy, just like in weightlifting competitions, it is not so much important to take the weight as to keep it. From the very outset, Heydar Aliyev tried to make certain political guarantees of security conditional on the oil factor, at least in terms of strategic pipeline projects. When the question of pipelines, which will pump early oil from Azeri-Chirag-Gunashli, appears on the agenda, instead of choosing between the routes Baku-Novorossiysk and Baku-Black Sea coast of Georgia, both routes are chosen. This is a political decision, which made it possible again to ensure a compromise of interests. To some extent, NATO acted as a guarantor of the security of pipelines. Strange but true: during the brief Russian-Georgian war, we saw that the Russian aircraft, which bombed not only military targets, but also towns and villages of Georgia, was extremely accurate with regard to strategic pipelines leading from Azerbaijan through Georgia to Turkey.

### **The period of 1998-2001: Baku-Tbilisi-Jeyhan pipeline decision.**

A new, intense connection between the Nagorno Karabakh settlement and oil projects falls to 1998-2001. This manifested itself in an unexpected way. 1998-1999 was remembered by the fact that Europe began to hold in Baku many conferences and round tables devoted to the rehabilitation of the war-torn territories surrounding Nagorno-Karabakh. They named some figures, which seemed unimaginably high at the time and which aimed at convincing us that the conflict resolution was not far off. And it seemed that it was so indeed.

There were several reasons. Heydar Aliyev was re-elected president of the country and could act more confidently without looking at the public mood. It is no accident that several key figures involved in the problem to varying degrees resigned at this time - Foreign Minister Tofiq Zulfugarov, assistant to the president Eldar Namazov, presidential adviser Vafa Guluzadeh. One reason for these resignations was the rejection of the agreements that President Aliyev was willing to conclude, although, apparently, there were other reasons for what was happening.

Secondly, a prominent role was played by the events in Chechnya. Russia is already exhausted by the war with the small autonomy. The conflict is becoming international to some extent. By this time, Azerbaijan becomes a significant factor in the Chechen events. Suffice it to say that many Chechen leaders prefer to go to Western countries through Azerbaijan, and with short meetings with the Azerbaijani leadership. Against this background, there is nothing surprising that one of the first to call and congratulate Aliyev after the presidential elections in 1998 was Yeltsin. Knowing their strained personal relationships, it is a very remarkable fact.

Third, back in 1997, the president of Armenia Levon Ter-Petrosyan made a statement calling Armenians for compromises on Nagorno Karabagh issue. In that year, the OSCE Minsk Group presented two proposals for the package and phased resolution of the Karabakh conflict. The Armenian Foreign Ministry then said that Levon Ter-Petrosyan did not sign the package option, but agreed with the second phased option, implying the return to Azerbaijan of the "security zone" controlled by Karabakh forces without defining the status of Nagorno-Karabakh. As is known, these attempts to move towards peace ended in the resignation of Levon Ter-Petrosyan. Robert Kocharyan became Armenian president, but he still has no personal power and is forced to reckon with such influential political figures as Vazgen Sarkisyan and Stepan Demirchyan. There was a certain mood for peace in this part of the Armenian elite

too. After negotiations with them in autumn 1999, Strobe Talbott, special envoy of the US president, leaves Yerevan very satisfied and heads for Moscow to continue talks with the Russian leadership. However, on his way he learns about the shooting in the Armenian parliament. The genuine political implications of this shooting are known to all, but remain unproved.

Finally, the fourth and perhaps, most important thing that directly concerns the topic. A successful attempt is made to ensure a breakthrough in the oil development of Azerbaijan, and it is associated with the implementation of the Baku-Tbilisi-Ceyhan pipeline. In 1999, a decision is made to build the Baku-Tbilisi-Ceyhan pipeline. Now it seems that the construction of BTC was predetermined from the outset. But at that time Russia was well aware that such a project as BTC creates new geopolitical strains in the region and it is necessary to delay the project. It is not by chance that from 2003 to the completion of the BTC pipeline project, the Russian Foreign Ministry actually issued an ultimatum warning Azerbaijan that the project will fail. And at certain points in history, the Armenian side openly threatened to blow up or shut the Baku-Ceyhan oil pipeline or the South Caucasus gas pipeline designed to transport gas from Shah Deniz. Nevertheless, the project is already becoming a reality.

This helped strengthen US positions in the negotiation process. The US understands that, apparently, there is a window of opportunity now to seize the initiative from Russia in the negotiation process on Nagorno-Karabakh. By that time, the Minsk Group presented the parties with two formal proposals: a 1998 document, which contained the idea of a common state, and by 2001, the so-called Key West proposals. Heydar Aliyev is ready to make serious compromises in the name of the peaceful settlement of the Karabakh conflict. However, at the last moment he refuses to sign the final document. Everything comes back to the beginning.

### **Oil and conflict under Ilham Aliyev's presidency.**

If we talk about 2002-2003, here we observed a certain pause in settlement related to the presidential electoral cycles. Prior to the elections - in Armenia or Azerbaijan - a pause always appeared. Did the oil factor play a role in the election of Ilham Aliyev as president? Certainly, it did, because oil projects always attach particular value to stability in the country. In this case, the succession of power in Azerbaijan seemed to guarantee this stability. Recall that 2003 was the opposition's last chance to change the political structure of the country. The fact is that with the influx of petrodollars into the economy, the authorities got a chance to make a broad and unofficial deal with society. Actually, this is what happened. Living standard noticeably grew by the middle of the 2000s and some of the oil revenues, despite enormous corruption, were still channeled into society.

Yet in 2003 the opposition was close to victory as never before and there was sufficient demand for changes in society. Protests after the elections were brutally suppressed by the authorities, and we can say that the opposition lacked the strength for a final breakthrough in the struggle for power.

In the parliamentary elections of 2005, the last pockets of opposition protest were suppressed, namely, attempts to change the balance of power in parliament. Many politicians were well aware then that a large influx of money into the economy was beginning. And again, there was temptation to turn the tide and create at least parliamentary opposition to President Aliyev. Incidentally, in the 2005 elections capital began to play a greater role in the fight for the parliamentary seat for the first time, which was hardly observed before.

Strengthening his position, President Ilham Aliyev significantly altered the direction of his policy. He continues to host the OSCE Minsk Group co-chairs and meets with the presidents of Armenia. We can talk about diplomatic progress here: the so-called Prague process and the Madrid Agreement, which created great chances for a peaceful settlement of the problem, falls to this decade.

But there was a failure again and a long return to the starting point. Ilham Aliyev quickly realized that the negotiations within the Minsk Group had a more ritual nature just like the direct mediation of Moscow. So naturally, all the government's attention was now focused on the economy. Major "quazi -bourgeoisie" finally takes shape in the country. Oil and gas projects help solve the government's own problems while turning the oil strategy into an active element of foreign policy. From the end of the 2000s, SOCAR starts incredible expansion abroad. Azerbaijan is becoming better known in the world, and the scale of the work of the state oil company now extends from Georgia and Turkey to Switzerland and Southeast Asia.

Political objectives are set through the economy - to achieve the economic isolation of Armenia or at least neutralize it in order to weaken its negotiating positions. 2008 saw the beginning of the construction of the Kars-Tbilisi-Baku railway, which will connect the South Caucasus with the railways of Turkey.

The ups and downs of this project are very interesting. Azerbaijan fought for this project even before getting major profit oil from BTC. It so happened that in the South Caucasus there was no railroad left linking these countries with Turkey or Iran. Only one railway - from Russia to Azerbaijan - linked Azerbaijan with the outer world. However, it is noteworthy that when Azerbaijan came up with the idea of building the railway through Georgia to Kars (BTK), European financial institutions refused to support this project. The motive was simple. We must try to convince Turkey to open the border with Armenia and restore the Gyumri-Kars rail service, and, as the next step, to prompt Azerbaijan and Armenia to open the rail link through Armenia and Nakhchivan and ensure the South Caucasus' access to Europe, and, thus, link the South Caucasus to the world.

The ephemerality of these calculations was evident. In 2008, Turkey, Azerbaijan and Georgia agreed to start implementing the BTK project. Azerbaijan allocated more than \$ 700 million in loans for this project and most of them were provided at a very low rate of 1 per cent. The loans were to be returned within 25 years through the preferential use of the new railroad by Azerbaijan. The subsequent Zurich agreement between Turkey and Armenia again reinforced expectations about the restoration of the Gyumri-Kars road. Generally, it was a time of continuous political expectations. In particular, Turkey then put forward the idea of a "Caucasian platform", which suggested that the number of foreign players involved in the conflicts in the South Caucasus narrows to Russia and Turkey. It was a kind of attempt to localize the conflict, which had long gone beyond the boundaries of the region. In other words, it was a proposal to "rebrand" the Nagorno Karabagh settlement. Russia did not support the idea of the "Caucasian platform" then, not wanting to give up the position of the most influential external player in the South Caucasus. The idea failed. The Zurich agreements were also disrupted.

Today the construction of BTK is coming to an end, although there were enough political and economic problems here. It is likely that it will be followed by the construction of the Kars-Nakhchivan railway, which will connect Eastern Turkey and the northern regions of Iran through Azerbaijan. All kinds of counter-projects such as the pumping of Iranian gas through Armenia to the Black Sea or a railway linking Iran with the Black Sea coast of Georgia are nothing more than economic exotica, and their commercial efficiency is more than doubtful.

Here you can observe again that the oil factor has no direct impact on the Karabakh settlement. But now it works covertly as part of Azerbaijan's foreign policy. The cumulative effect of this becomes very

noticeable. This process is increasing, beginning from the pumping of first oil via BTC, accumulation of foreign exchange reserves in the Oil Fund of Azerbaijan and the beginning of the implementation of major gas projects in the country. This process continues to this day despite the fact that some problems have emerged in the economy.

### **New stage of interplay of oil and conflict.**

Today in 2014, against the background of the events in Ukraine and the implementation of major oil and gas projects in the region, we are witnessing changes that drastically alter the character of the existing status quo. On the one hand, the very scale of oil and gas projects in the region makes Azerbaijan leadership extremely cautious. Any military action in the region can now have a serious impact on the prospects for economic development. Besides that, the war could destabilize the current political regime as well. Western countries that have oil interests in the country are not inclined to support a military solution to the conflict. Military rhetoric often does not mean readiness for war, it is just an attempt to affect the course of events through the "enforcement of peace" and economic force. Russia, which has the keys to the resolution of the Nagorno Karabagh conflict, remains a major source of conflict in the Nagorno Karabagh conflict. But in reality, Russia continues to fear that if hostilities in the South Caucasus resume, a turbulent South Caucasus will affect the situation in the Russian North Caucasus, especially in Dagestan. Thus, all parties have reason to avoid any escalation of the conflict.

Second, contrary to the assurances of political scientists that Russia is quite satisfied (for decades) with the mode of "frozen" conflicts, the reality turned out to be somewhat different. You can talk about Saakashvili's blunders as long as you want, but the Russian-Georgian war was the first "unfrozen" conflict in the CIS. Abkhazia and South Ossetia declared themselves independent under the cover of the Russian army.

Third, the drama in Ukraine and the de facto annexation of Crimea greatly expanded the boundaries of the concept of "the right of nations to self-determination". It turns out that any national community, particularly with relevant Russian passports, can hold a referendum and announce their secession from the state. Moreover, by adopting the law on the simplified adoption of Russian citizenship and engaging in endless rhetoric about a united "Russian world", Russia emphasizes that it is possible anytime and anywhere. At the same time, it reserves this right. This considerably alarmed many post-Soviet countries. It is no accident that Kazakhstan ensured that the status of the Eurasian Union is only economic, not political for the time being. One can understand the resentment of strongly dependent on Russia Armenia when it became apparent that she was admitted to the Customs Union only with the officially-recognized borders of Armenia without Nagorno-Karabakh. If it was possible to involve Nagorno-Karabakh in this project, this would be a new step towards the political recognition of the territory for Armenia.

Oil and sufficient economic independence gave Azerbaijan a good opportunity for maneuvering. Azerbaijan refused to sign the Association Agreement with the EU and invites Europe to build bilateral relations based on oil and gas cooperation. Besides, Azerbaijan cannot sign these agreements because it has not become a WTO member. In recent months, Russia has made enormous efforts to involve Azerbaijan in the Eurasian Union. But here Azerbaijan clearly keeps to its non-aligned position. Azerbaijan accepts economic proposals from Russia (agreement with Rosneft, the creation of a joint investment fund, the opening of a ferry with Russia), but carefully avoids joining the Customs Union and the Eurasian Economic Union.

This new situation reflects the broad geopolitical context of the processes taking place in the CIS space. Changes in the region are probably inevitable. Building up some diplomatic successes, Azerbaijan will seek new "windows of opportunity" in the coming years to resolve the Karabakh conflict. The corridor of opportunities here is quite narrow.

## **Conclusions.**

Summarizing the abovementioned, let's ask ourselves: Did oil and gas ensure the security of the country? The first answer seems obvious - of course, yes. The economy is more stable, it is developing and no significant crises are in sight. But it is in the short-term. Can the wealth of resources support the long-term security of the country?

And how correct is it to say that the resource wealth of Azerbaijan contributed to the strengthening of the sovereignty of the country and its security if the border between Azerbaijan and Armenia is still completely broken and between Azerbaijan and Iran is broken partially? That's why the Karabakh settlement remains at the heart of all problems of Azerbaijan. It can be stated that in these years, as an object of negotiations, all possible options for the peaceful settlement of the conflict were tried. Yet simultaneous movement of all three republics of the South Caucasus to Europe seemed the most promising project until recently beyond the negotiation process on Nagorno-Karabakh. However, recent events caused sharp polarization here.

Nevertheless, it is worth discussing the problem at least briefly. In reality, the problem of the country's security has three layers. It is the internal security of the country, its security at the expense of the regional component and the inclusion of the country in global security systems. Naturally, these levels constantly intersect, but nevertheless it seems interesting to consider each of these layers individually.

The internal security of the country rests on the same petrodollar assets of the country. They make it possible to build a system of social contract with the population of the country. In any case, they are sufficient to eliminate any germs of social discontent in the country in a timely fashion. They also allow us to keep the bureaucratic and repressive apparatus to protect the system. In general, the economic security of the state is supported by high oil prices (according to the results of the six months, the Brent oil price will probably be over 110 dollars per barrel) and growth in oil production. But oil production in Azerbaijan is slowly but surely falling. By 2018, the country's surplus balance of payments will significantly decrease. The country's income from the development of the second phase of the Shah Deniz project and new gas fields will hardly cover the decline in oil revenues that still account for 85-86 per cent of exports. It is no coincidence that the authorities are increasingly focusing on other levels of economic security - food security and the reliability of the pension system.

It is clear that like in most oil-producing countries, the authorities are interested in political reform least of all. They seem to be destructive for the existing system. But the economy sometimes reaches the threshold when its further development should be supported by political reforms. The latter are sometimes dictated by imperatives coming from the state of the economy. Our economy, as it seems to us, is approaching this limit. For the genuine security of the country there is a need for a strong political system guaranteeing fairness in income distribution and the consolidation of society in the face of any external

dangers. The current fragmentation of society, the increasing contrast between wealth and poverty and the power of monopolies only postpone this perspective.

At the regional level, Azerbaijan participates in almost all projects that can strengthen its security. One may notice, for example, that Azerbaijan has recently been building relations with neighbours in different formats. There are old formats such as Azerbaijan-Georgia-Turkey and Azerbaijan-Iran-Turkey, and they were recently joined by the Azerbaijan-Turkey-Turkmenistan format. And the Azerbaijan-Georgia-Turkey economic link is so strong that sometimes there appear ideas to strengthen its political component. These are platforms, on which the foreign ministers of these countries meet and discuss issues of cooperation. For the topic under review, it is interesting that all these formats somehow involve oil and gas topics. Turkey is strengthening its position as a regional gas hub with the support of Azerbaijan. This explains Turkey's insistent desire to secure the pumping of Turkmen gas via Azerbaijan, Georgia and Turkey to Europe. Another regional format was the GUAM project. The peak of the activity of this project was accompanied by the active promotion by Europe of the INOGATE project, which involves the movement of hydrocarbons from Central Asia to Europe's borders. There are already proposals to revive this project again.

At the international level, Azerbaijan, participating in virtually all international organizations, has chosen a pronounced non-aligned position. Moreover, it is a member of the Non-Aligned Movement. In its foreign economic activity, Azerbaijan constantly emphasizes that it prioritizes the commercial component of projects. Nevertheless, real economic projects inevitably have a political content. The Southern Gas Corridor project, which creates new geopolitical strains in the region, could be called such a project. Thus, oil revenues are only a tool that requires skilful handling. Oil can strengthen the security of the country, but it can also weaken it. And it is the question of the successful work of the political system.

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Shahin Abbasov is an independent Azerbaijani journalist and analyst. From 2004, he has been a freelance correspondent of the Internet publication Eurasianet ([www.eurasianet.org](http://www.eurasianet.org)) in Azerbaijan. He worked for 14 years in the print media, including working as a deputy editor-in-chief of *Zerkalo* and *Echo* newspapers in Baku. He also worked at the media development sector, in the US IREX Media Support Project in Azerbaijan (2004-2011) and as the regional media project manager at the Council of Europe office in Baku (2011-2013). In 2003-2004 Abbasov was a Reagan-Fascell Fellow at the National Endowment for Democracy in Washington, DC.



### **Yevgeny Zhovtis**

Yevgeny Zhovtis was born on August 17<sup>th</sup>, 1955 in Kazakhstan. Mr. Zhovtis is a legal expert, a human rights defender, and an activist. Yevgeny Zhovtis has pursued his Degree of High Law School “Adilet” in 1996-99, and become a Defense Lawyer. He has received first high degree as candidate of technical sciences by studying at the Research Institute on Problem of Complex Utilization of Natural Resources in Moscow in 1982-86. In 1972-77. Mr. Zhovtis earned his BA as Mining Engineer-economist at Kazakh Polytechnic Institute. He was awarded by a number prestigious international human rights institutions, including Moscow Helsinki Group Human Rights Award (2011), Freedom Award for Kazakhstani Democratic Activists (2010), Friedrich Ebert Stiftung Human Rights Ward (2007) due to his active role as a human rights defender. Mr. Zhovtis is the chairman of Kazakhstan International Bureau for Human Rights and Rule of Law since 1993 and has been lecturing at various universities. He also worked at Independent Trade Union Center of Kazakhstan (Confederation of Free Trade Unions of Kazakhstan) in 1992-1996 as Vice-President as well as a Head of the Bureau on Information, Analysis and Consultations. Yevgeny Zhovtis has more than 200 publications on the problems of democratization and economic transformation, human rights situation and the rule of law in Kazakhstan, and published more than 60 works related to different scientific issues.



### **Vadim Dubnov**

Vadim Dubnov was born in 1962 in Kiev. He graduated from the Moscow Institute of Transport Engineers in the field of Applied Mathematics. He has been in journalism from the year 1994, worked as a political analyst for the magazine "New Times" newspaper "Gazeta", on Radio Liberty, RIA Novosti. Vladimir Dubnov is an author of numerous articles and analytical pieces related to the energy security, Russia's politics, conflicts, and other issues of transition. Mr. Dubnov is currently an independent journalist with main interests in politics and economics in the post-Soviet space.



### **Amirzhan Kossanov.**

Mr. Kossanov is a well known Kazakh politician.

He was born in May 13, 1964. He graduated from the Faculty of Journalism of the Kazakh State University in Almaty. Worked in the republican newspaper "Egemen Kazakhstan" ("Sovereign Kazakhstan "). Was the creator and host a series of programs on the Kazakh television. Worked as the head of the youth organizations. He was the Deputy Minister of Youth, Sports and Tourism .Supervised the press service of the Government of the Republic of Kazakhstan.

Since 1998, is in opposition to the current regime. Kossanov was one of the organizers and leaders of a number of mass democratic parties and movements in Kazakhstan. He has extensive experience of cooperation with international official institutions and democratic organizations , constantly traveled abroad to participate in the hearings on the situation in Kazakhstan and Central Asia . He was repeatedly exposed to repressions and persecutions for his political views : had been convicted in a criminal case on trumped-up charges in order to prevent his participation on elections , repeatedly was serving a sentence of imprisonment for 15 days for “organizing mass protests “. Several times he was recognized as " Politician of the Year " by various independent research institutions and the media. He is renowned bilingual writer in Kazakhstan, is a columnist in a few popular newspapers .



### **Juvarli Togrul.**

Juvarli Togrul was born in the city of Ganja in 1939; graduated from the Physics Faculty of Baku State University; He worked as a journalist and a screen-writer. In the past 10 years he has been an active publicist and an economic expert. He now works as an economic expert in the independent information agency Turan. Juvarli, is a relative of the former Musavat prime minister Nasib bey Usubbayli and former ADR (People’s Republic of Azerbaijan) minister Khalil bey Khasmammadov. He has participated in numerous international conferences related to the issues of economics and politics in Azerbaijan, as well as authored articles published both in Azerbaijan and abroad.