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Introduction

The importance of the approach to energy security, as suggested in this study, is justified both from the policy and theoretical point of view.

First, against the background of the dramatically falling world oil price, the actuality of the deeper insight into the possible range of its implications, is obvious.

The first losers of the declining oil price are countries-producers, whose economies are highly dependent on natural hydrocarbon resources, such as Russia, Azerbaijan and Kazakhstan, and more specifically - local consumers, as the lower energy prices are affecting all other consumer goods, including agricultural products and state welfare - budgetary salaries, pensions, as is the case with those states.

With Iran's re-entrance in the Western market after the nuclear deal, further decline of prices is expected. At the same time, decline in demand of the non-renewable energy sources globally will have an ambiguous effect. While being a positive factor in undermining the power of the autocrats of the oil-rich states, it will aggravate countries-producers' economic vulnerabilities and stimulate social protests, if economies are not restructured and prepared for such a transition.

All this requires heightened focus on the issues, which are usually in the shade of the publications dominating the energy security field, which predominantly focus on geopolitical or technical aspects of the concept. Here the gap between the real impact of energy security threats upon the human/social dimension on the one hand, and theoretical concepts in this field on the other, which usually treat these aspects (social and community impacts) as a second priority, is especially critical, as it risks leaving stakeholders unprepared for the social implications of major developments in energy security.

There are references to the social/human dimension of the energy policy and security in relevant publications. Poverty, neglect by authorities and lack of infrastructure affect accessibility of the population to energy, such as gas.¹ Access to the latter is complicated by corruption and poor governance in the energy distribution area, so well described in the analysis of the gas distribution system in Azerbaijan.² Moreover, problems with infrastructure and accessibility of energy in the communities often can mingle with political issues and stimulate social protests, as well as being used as a tool in control and repression by the state for political purposes.³

Lack of transparency on the part of governance in the energy sector, first of all in gas and electrical power distribution, was demonstrated in the most recent “Electro Maidan” events in Armenia⁴. Corruption and lack of accountability in the energy sector in Georgia led to the protests in 2012 and intensified popular support for greater energy independence from Russia.

Yet along with the traits of common legacies and shortcomings of transformation in governance, ownership and distribution, there are certain peculiarities of the energy security dimensions of each country, conditioned by their role in the energy chain (producer, transit or consumer) and the role which the energy sector plays in the economy of each respective country.

In the country-producer, such as Azerbaijan or other Caspian littoral state, certain dimensions of energy security may play a more profound role in behaviour of the public or elites, while the gap between them may cause contradictions, leading in times of crisis to the deep conflicts, as happened in Kazakhstan in 2011⁵. As the following study shows, the open questions on perception of energy security reveal a complexity

¹ Jason E. Strakes (2014), Resource dependence and measurement technology: international and domestic influences on energy sector development in Armenia and Georgia: *Central Asia Survey*, 33:4, 482-499.

² Tristan Barrett (2014) Notes on the moral economy of gas in present day Azerbaijan: *Central Asian Survey* 33:4, 517-530.

³ After the collapse of the Soviet Union, the access to gas, which is the major and relatively cheap source of energy for households, became practically impossible in Nardaran village near Baku, which was made famous by its social protests and mobilization on a religious basis. The cuts of communal services such as the gas and electricity supply of the village were also used by the government during the most recent stand-off.

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⁵ The Zhanaozen massacre took place on 16-17 December 2011 as a result of violent state suppression of the protests of oil workers in the Mangystau region of Kazakhstan.

and variety of issues which go beyond those outlined by contemporary experts in their analysis of the structure of the energy security concept.

Neither technocratic nor geopolitical approach to the concept appears to be sufficient to cover these issues - such as distribution of resource income, ownership, accessibility to the resources, economic and political consequences of the oil-dependent economies, which are perceived as threats to energy security, as this study shows, and most importantly - the function and role of the energy security for various actors within the states, as well as across the energy trade chain.

Moreover, the importance of Azerbaijan in EU energy security as an alternative supplier of gas to the EU markets on the one hand, and growing authoritarianism in Azerbaijan on the other, intensifies the asymmetry of these relations in terms of differing types of governance, and state-citizens relationship. Thus, the bottom-up approach may appear to be an effective tool to study gaps and contradictions in energy security concept mediation, which constitutes the basis of EU-Azerbaijan relations.

Hence, the objective of this paper is to conduct a pilot study on energy security in Azerbaijan from a local perspective to understand how various groups and stakeholders in the country are affected by production and distribution of oil and gas, its consumption, transportation and export to international markets. This initial research aims at exploring the perception and views of different stakeholders on energy security, risks and threats associated with it, and strategies and mechanisms to be implemented for prevention of any existing and imminent challenges to energy security domestically as well as in a broader framework. In other words, this study seeks to have a more elaborate understanding of energy security, applying a multi-actor analysis, to include the government, oil companies, consumers (citizens and corporate groups), civil society organizations and activists, local communities and other groups. It aims at facilitating of the understanding of the interests and the concerns of actors beyond state and oil companies in the area of energy security in Azerbaijan.

The methodology section will briefly explain the sources and information utilized in this research, The second part of this work is dedicated to the mapping out of the key stakeholders involved in Azerbaijan's energy security. The data on stakeholder perceptions are elaborated in depth in the concluding chapter.

Data and Methods

This research is mainly based on the field survey, primarily interviews held with the representatives of various stakeholder groups. Qualitative methods are utilized in this study and secondary sources are referred to as well, besides the interviews held. Unlike dominating studies in this area, the “bottom-up” approach with an objective to study the opinion and/or perceptions of the stakeholders, other than and in addition to the government and state agencies is the focus in this research. Therefore, this research can be considered a significant contribution to the study of energy security in Azerbaijan in understanding alternative perceptions based on a critical approach. The method consisted of two stages – the mapping of the actors/stakeholders (based on the selection of interviewees) and the interviews themselves. However, due to the pilot nature of the study and limitations on the conduct of interviews caused by limited freedoms in the country, the interviews did not cover the entire potential range of actors, but rather focused on key ones, including the average energy customers with various defining characteristics such as rural or urban area, gender, degree of social vulnerability, etc.

According to the research and surveys conducted, multiple stakeholders with a range of interests have been identified for the objectives of this study, namely major actors participating in and impacted by energy production, distribution and its export. Through an actor-centred analysis the paper utilizes the following dimensions of energy security developed by Sovacool & Mukherjee (2011)⁶– availability, affordability, technology development, sustainability, and regulation. The opinion and perception of the stakeholders in energy security are elaborated, based on these components and their dimensions.

⁶ Sovacool, B.K & Mukherjee, I (2011), “Conceptualizing and measuring energy security: A synthesized approach”, *Energy*, 36(8), pp.5343-5355

Statistical and Background Information

Referring to the State Statistical Committee report, the Centre for Social and Economic Development states that in January 2015 Azerbaijan's GDP was only 3.631 billion manat. Furthermore, according to the committee, 66.6% of GDP was produced in non-oil/gas sectors and increased by 5.1% compared to the same period of the previous year. During this period 36.3% of GDP was produced in industry, 12.0% in services in trade and maintenance of transport means; 10.4% in construction; 6.7% in transport and warehouse; 3.5% in accommodation of tourists and catering services; 3.4% in agriculture, forestry and fishing; 2.4% in information and communication services, with 14.9% in social and other service fields⁷. In addition, in a span of five years (2009-2014), the share of non-oil sector decreased from 70% to 45%, which automatically means the increase of the share of oil in total GDP⁸. The non-oil sector (which would include, trade, agriculture, information and communication services) is significantly underdeveloped in Azerbaijan in spite of the formally adopted regional development projects on which millions of dollars are invested, yet apparently wasted to a great extent. Azerbaijan's dependence on oil is reflected in the 65% oil revenues constituting its budget (52% from SOFAZ and 13% taxes from 14 oil companies)⁹.

Furthermore, the government has established the State Oil Fund of Azerbaijan (SOFAZ) as a means to effectively accumulate and manage the oil/natural gas related revenues, and this institution publishes annual and quarterly reports. For instance, based on the annual report published, the budget of SOFAZ stands at \$37bn for 2014¹⁰ and the data given indicates that SOFAZ has the highest growth in assets in the period 2009-2011 (nearly 33 % per annum), but in recent years this growth has been declining due to the lowering level of oil output and falling prices. According to this report, annual share in

⁷ "Has GDP Increased in Azerbaijan" (March, 2015), Centre for Social and Economic Development. Retrieved from <http://cesd.az/new/?p=9272> on September 1, 2015

⁸ Assessment of Effect of Declining Oil Prices on Azerbaijan Economy (December, 2014), Centre for Social and Economic Development, CESD Press, Baku, Azerbaijan. pp. 1-33. Retrieved from http://cesd.az/new/wp-content/uploads/2014/12/Assessment_of_Effect_of_Declining_Oil_Prices_on_Azerbaijan_Economy.pdf on August 31, 2015.

⁹ Interview with Ilham Shaban (July, 2015). An expert on energy in Caspian Barrel (<http://caspianbarrel.org/>)

¹⁰ SOFAZ Annual Report 2014 (August, 2015). Retrieved from http://www.oilfund.az/uploads/annual_2014en.pdf on August 15, 2015.

GDP has risen from 37.8 % in 2008 to 61% in 2014 based on the source provided by the Ministry of Economy and Industry of Azerbaijan. SOFAZ contributed more than half (over 50%) of the state budget revenues in the last 5 years, and the total transfers to the state budget equalled 55.8 billion¹¹. The reports published by SOFAZ about the revenues and expenditures and other related information on economics have been underlined as an indicator of the transparency of the sector's governance. However, as it is discussed below, most of the NGO leaders, experts and civil society activists do consider the reports biased and adjusted to the interests of the current government. The government takes pride in EITI membership (the Extractive Industries Transparency Initiative) and states that Azerbaijan has achieved significant results by joining EITI in 2003 and won the EITI award in 2009¹². The participants in EITI are both local and foreign companies, and within the framework of initiative, regular reports are prepared and made public in the country¹³. The activities of Azerbaijan in EITI are often praised by western government officials, such as the former UK Ambassador in Baku¹⁴.

However, since last year the situation has dramatically changed, as Azerbaijan was downgraded to a candidate position due to lack of compliance with the basic EITI principles and rules, such as human rights and liberties¹⁵. The dispute between Azerbaijan and EITI has become a public issue since 2013 when some non-governmental organizations complained about Azerbaijan's non-compliance with transparency principle and crackdown on civil society. Clare Short, EITI chairperson, said that it was necessary for Baku to ensure the participation of civil society in the EITI in a meaningful way to have its membership restored¹⁶. As an initial reaction to these critiques and subsequent downgrading, the government officials have taken up a harsh position against EITI, and Shahmar Movsumov, SOFAZ head, underlined that Azerbaijan

¹¹ Ibid. SOFAZ Annual Report 2014 (August, 2015).

¹² SOFAZ: we are proud of the achievements in EITI ((March, 2012). Retrieved from <http://www.today.az/view.php?id=103510> on August 31, 2015.

¹³ Ibid. Retrieved from <http://www.today.az/view.php?id=103510> on August 31, 2015.

¹⁴ British Ambassador: Azerbaijan can be proud of its role in EITI (March, 2012). Retrieved from <http://en.trend.az/business/energy/1999046.html> on August 28, 2015.

¹⁵ EITI Board Downgrades Azerbaijan To Candidate Country (April, 2015). Retrieved from <http://www.azadliq.org/content/article/26958447.html> on August 31, 2015.

¹⁶ Azerbaijan: EITI Downgrade Dents Baku's Image (April, 2015). Retrieved from <http://www.eurasianet.org/node/72986> on August 31, 2015.

could find it reasonable to quit the organization (EITI) if this unfair treatment continues despite the transparent reports prepared by the governmental agencies in Azerbaijan¹⁷.

According to the local academic researcher who was selected for this project: “One serious implication of this downgrade is that the Azeri government can no longer boast its status of a fully transparent polity and this can have a negative impact on the attractiveness of the country to potential future foreign investors (and might affect the plans of already operating investors to keep or withdraw their capital in the country)”¹⁸. Later, however, Azerbaijan softened its stand towards NGO-members of EITI coalition of NGOs, de-freezing their bank accounts, which proved both the importance of the energy security area for the leadership and consequently the risks related to the violation of rules of the international energy agreements.

Mapping out of primary stakeholders in energy security in Azerbaijan

The major stakeholder in energy security in Azerbaijan is the state which has set up multiple institutional mechanisms to control and supervise the domestic energy market and exportation of oil and gas abroad. According to the Energy Sector Assessment Country Report by EBRD (2010) the Ministry of Energy is the major executive branch that implements state policy and regulations for the energy sector, while regulatory policies are implemented primarily by the Ministry of Energy as well as the Ministry of Industry and Economy and the Tariff Council¹⁹. However, it is noteworthy that the State Oil Company of Azerbaijan Republic (SOCAR) is the primary actor that represents the government in its energy policy implemented internationally, and is directly involved in major oil and gas contracts as a shareholder.

As Standard & Poor’s Rating Services acknowledges, SOCAR plays a central role in Azerbaijan's most strategic sector, oil and gas as a shareholder in multiple internationally-led upstream projects, such as ACG (Azeri-Chirag-Guneshli), and it is a

¹⁷ Shahmar Movsumov: “Azerbaijan can quit EITI” (May, 2015). Retrieved from <http://www.news.az/articles/economy/97633> on August 28, 2015.

¹⁸ Interview with the local academic researcher(August, 2015).

¹⁹ Energy Sector Assessment: Azerbaijan Country Profile (2010). Retrieved from <http://www.ebrd.com/downloads/legal/irc/countries/azerbaijan.pdf> on July 25, 2015.

substantial taxpayer with the monopoly in refining and petrochemicals²⁰. The domestic upstream oil and gas market is dominated by SOCAR and it has statutory exclusive rights for the development and production of oil and natural gas in Azerbaijan²¹. In addition, SOCAR's share in TAP (Trans-Adriatic Pipeline) is 20 percent²², but it will be the main financial supporter of TANAP (Trans-Anatolian Pipeline) and has reportedly divested some of its equity to key partners in the Shah Deniz project, such as BP²³. The Ministry of Energy has rather a formal role in the energy sector and the major deals are under control and supervision of SOCAR in Azerbaijan. In other words, there is very little space for the Ministry to exert a visible impact on policies in regard to the energy sector considering SOCAR's involvement in PSA's and closer ties with the president. As Heidi Kjaernet states, SOCAR's dual role as a company and a government agency strengthens the impression that commercial interests on the one hand, and policy formation and regulation on the other, are not dissociated in the Azerbaijani petroleum sector²⁴. Thus, SOCAR is entitled with political and economic responsibilities to ensure energy security through uninterrupted supply in domestic and international markets (availability), stability (affordability), and employment (technology development and efficiency).

Unlike neighbouring Russia, the petroleum sector in Azerbaijan has been friendly to foreign investments in producing and exporting its natural resources to the European market to eventually gain fiscal profit. Consequently, dozens of big oil and natural gas companies have been attracted to make chunks of investment in this business. Nowadays, BP, Exxon, Chevron, Statoil, Lukoil, NICO, TPAO, and Total are among the leading companies who do have share in PSAs, such as ACG and Shah Deniz II. Those companies are currently having investments in future projected TAP and TANAP pipelines as well²⁵ besides the currently operational BTC (Baku-Tbilisi-Ceyhan) and SCP

²⁰ S&P affirms long-term credit rating on SOCAR (February 9, 2015). Retrieved from <http://en.trend.az/business/energy/2362350.html> on July 23, 2015.

²¹ Valiyev Kamil & Eminova Rena (2015), "Oil and gas regulation in Azerbaijan: overview", Energy and Natural Resources, Global Guide. Baker & McKenzie: CIS Limited, pp. 1-11. Retrieved from <http://us.practicallaw.com/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1247745637362&ssbinary=true> on August 31, 2015.

²² TAP Pipeline open to other shareholders, including Iran (April 09, 2015). Retrieved from <http://www.euractiv.com/sections/energy/tap-pipeline-open-other-shareholders-including-iran-313641> July 28, 2015.

²³ "The Great Game for Gas in the Caspian" (2013), Industry Briefing by the Economist Intelligence Unit, pp. 1-40. Retrieved from http://www.aie.org.au/AIE/Documents/EIU_Gas_in_the_Caspian.pdf on July 24, 2015.

²⁴ Kjaernet, Heidi (2010), "The State Oil Company SOCAR: A Microcosm of Azerbaijani Development?" in Caucasus Analytical Digest, no 16, pp. 5-7.

(South Caucasus Pipeline). Hence, in addition to SOCAR as the representative of the government, foreign oil companies are important players in energy production, transportation and delivery to the markets whose energy security is not dependent solely on resource availability, but stability, predictability (affordability), investment (technology development and efficiency), transparency, accountability, geopolitics (regulation and governance) and other factors. The involvement and significant role played by foreign companies in upstream, midstream and downstream phases demonstrate the government's will to keep the energy sector open to international investment despite the domestic gas and electricity sector suffering from monopolization.

According to U.S. Energy Information Administration (2014), natural gas (67%) and petroleum (30%) have gotten significant share in Azerbaijan's primary energy consumption in 2012, only 3 percent margin left for hydropower²⁶. Further to this, it would be relevant to cite the Review of the Energy Charter Secretariat: "Residential consumption accounted for 43% of the total final consumption in 2011 and this was followed by transport (25%) and industry (12%). Non-energy use and commercial consumption each have about 7% share in the final consumption ... Natural gas is the main fuel used for residential consumption. About 80% of the total residential energy consumption is met by natural gas with electricity representing only 15% of the total consumption ... Gas is the preferred fuel and it contributes to the bulk of energy used in industry, with a share of 73% in 2011. The share of oil products in industrial use is only 9%. The electricity used in industrial consumption constituted about 18% of the total consumption in the sector in 2011... Almost all of the final energy consumption in the transport sector is met by oil products, and the share of electricity is only 2%"²⁷. As is evident from statistics, natural gas is a primary source of power in the domestic market for residents and industry, whereas the transport system utilizes oil, so natural gas and oil are the cornerstones of domestic energy consumption, thus energy security.

²⁵ Socor, Vladimir (January, 2014), "SCP, TANAP, TAP: Segments of the Southern Gas Corridor to Europe", Eurasian Daily Monitor, Vol. 11, Issue 8. Retrieved from http://www.jamestown.org/regions/europe/single/?tx_ttnews%5Btt_news%5D=41821&tx_ttnews%5BbackPid%5D=671&cHash=b19e6b9dcec369702fc84a46c2e2d56a#.VcE3LPntmkoon on July 23, 2015.

²⁶ "Azerbaijan. International Energy and Data Analysis (2014), U.S. Energy Information Administration, pp. 1-12. Retrieved from http://www.eia.gov/beta/international/analysis_includes/countries_long/Azerbaijan/azerbaijan.pdf on July 29, 2015.

²⁷ In-Depth Review of the Energy Efficiency Policy of Azerbaijan (2013), Energy Charter Secretariat, pp. 1-114. Retrieved from http://www.encharter.org/fileadmin/user_upload/Publications/Azerbaijan_EE_2013_ENG.pdf on August 1, 2015.

Azerbaijan's electricity sector is single-handedly dominated by a state-owned institution, Azerenergy OJSC, in a vertically integrated monopoly system. This institution, argues Hajar Huseynova (2010), manages electricity production, transmission and distribution and is responsible for national grid and electricity supplied domestically, excluding Baku, which is provided by Bakielektrikshabaka (BES) JSC²⁸. The government has been capable in fully electrifying the domestic market and it is now even exported to Turkey, Iran and Georgia. Nowadays, the volume of exported electricity has been increased to supplement the loss due to falling oil prices²⁹. Hence, electricity has become a strategic commodity for the government to support its weakening liquidity. There are already initiatives to develop a regional electricity power circle, and the Georgian Deputy Minister of Energy Mariam Valishvili has stressed that the establishment of the Azerbaijan-Georgia-Turkey power circle "will enhance the energy security of Azerbaijan, boost the country's capacity to export electricity and provide it with access to Europe"³⁰. The development of the regional energy market is supported by the EU funded INOGATE Technical Secretariat project aimed at facilitating legal and regulatory requirements for cross-border trading in the region³¹. Official records do not reveal any signs of or remarks on competition between Georgia and Azerbaijan in establishment of power grid in the region³², but rather, cooperation is perceived mutually beneficial and a way to achieve independence in its regional power supply. In addition, Turkey will not be fully satisfied with the electricity supply from Georgia due to the latter's limited export capacity; therefore Turkey would not be interested in cooperating solely with Georgia. It is yet not excluded that Georgia and Azerbaijan can compete with each other over the electricity market in Turkey and its further delivery to Europe; however, it is less likely to be acknowledged as a zero-sum game since the two countries have become significantly dependent on each other on economic terms, especially in energy and transportation spheres. Azerigas CJSC, on the other hand, is the state enterprise

²⁸ Huseynova, Hajar (2014), "Alternative and Renewable Energy Outlook for Azerbaijan", Policy Paper, Konrad-Adenauer-Stiftung, pp. 1-35.

²⁹ Daly, C.K. John (March, 2015), "Despite low oil prices Azerbaijan increases electricity export". Retrieved from <http://www.silkroadreporters.com/2015/03/03/despite-low-oil-prices-azerbaijan-increases-electricity-exports/> on August 4, 2015.

³⁰ Azerbaijan-Georgia-Turkey energy bridge project to contribute to the development of Black Sea electric power circle (October, 2014). Retrieved from http://azertag.az/en/xeber/Azerbaijan_Georgia_Turkey_energy_bridge_project_to_contribute_to_development_of_Black_Sea_electric_power_circle-806092 on August 1, 2015.

³¹ INOGATE helps regional electricity market between Azerbaijan, Georgia and Turkey (January, 2015). Retrieved from <http://www.enpi-info.eu/eastportal/news/latest/39770/INOGATE-helps-regional-electricity-market-between-Azerbaijan,-Georgia-and-Turkey> on August 29, 2015.

³² Electricity bridge planned with Georgia, Azerbaijan (July, 2015). Retrieved from <http://balkangreenenergynews.com/electricity-bridge-planned-with-georgia-azerbaijan/> on August 31, 2015.

that has monopoly control in the gas sector, and is engaged in gas transportation, distribution, purchase and supply and manages access to transportation and distribution networks³³. In addition, in transportation and distribution network, all investments are managed by Azerigas. It is worth underlining that not all the regions of Azerbaijan have been gasified: the quality of energy is not high and the major problem with gasification of all regions is not the volume of energy, but the lack of infrastructure across the country³⁴. In addition, the lack of gasification across all the regions leads to a security threat to the environment/ as households cut down trees, which results in degradation, erosion and loss of fertility in agriculture³⁵.

Furthermore, the retail and wholesale tariffs as well as the gas and fuel supply prices are determined, approved and regulated by the Tariff Council within their internal rules and are mandatory for all entities in the country. Moreover, the Tariff Council has powers to set tariffs for any kind of renewable energy, but only wind energy and mini-hydro power tariffs have been set. There is no difference in tariffs between cogeneration and traditional power systems³⁶. In regards the laws on natural resources and rules of utilization, the primary legislative acts regulating the oil and gas industry in Azerbaijan are the Subsoil Law and the Law on Energy (the Energy Law), under which no physical or legal person may engage in oil or gas exploration and production without special permission and an energy contract. To add, the Law on the Use of Energy Resources of May 30, 1996, and the agreements on the sale and purchase, transportation, and exchange of electricity and heat must comply with the Rule on the Use of Electricity. All major oil and gas projects to date have been undertaken on the basis of production-sharing agreements (PSAs)³⁷.

Falling oil prices have urged the government to accelerate some reforms in the domestic electricity sector and break down the monopolization by establishing Azerishig JSC (state-owned company) in February, 2015, which has become the single operator of the electricity distribution network in the country, which was previously in the hands

³³ Ibid. Energy Sector Assessment: Azerbaijan Country Profile (2010). Retrieved from <http://www.ebrd.com/downloads/legal/irc/countries/azerbaijan.pdf> on July 25, 2015.

³⁴ Interview with Rashad Hasanov (July, 2015), an expert in economics and a civil society activist.

³⁵ Interview with the Expert on Environmental Issues at National Academy of Sciences (July, 2015).

³⁶ In-Depth Review of the Energy Efficiency Policy of Azerbaijan (2011). Energy Charter Secretariat, pp. 1-93. Retrieved from http://www.minenergy.gov.az/db/Azerbaijan_ICMS_2011_ENG.pdf on August 23, 2015.

³⁷ "Doing Business in Azerbaijan (2015). Baker & Mckenzie-CIS Limited, pp. 1-118. Retrieved from http://www.bakermckenzie.com/files/Uploads/Documents/Supporting%20Your%20Business/Global%20Markets%20QRGs/DBI%20Azerbaijan/bk_dbi_azerbaijan_specificindustries.pdf on August 26, 2015.

of Azerenergy JSC³⁸. The government understands that achieving energy efficiency in the domestic electricity market will increase the potential to export more to the neighboring countries. Toghrul Juvarli, an expert in this area, who was interviewed for this research, suggested that there was a closer family tie between the president and Azerishig JSC than the former and Azerenergy JSC, which also played a crucial role in pulling Azerishig upfront³⁹. Considering that kinship ties have become an important factor in patron-client relations in rent-seeking Azerbaijan, this case is not an anomaly, which demonstrates an obvious limitation on possible reforms in the area. On the other hand, the president mentioned in his address to the Cabinet of Ministers that the establishment and efficient functioning of Bakielektrikshabaka (electricity distributor for Baku only) paved a way for creating such an effective system serving the regions of the country⁴⁰. Toghrul Juvarli suggested that this structural change would certainly give a way for renewable energy groups enter the course, but it will take some time, as it requires the political will of the government to fight monopolies and create conditions for free competition⁴¹.

This recent development aims at reducing distribution losses in domestic markets, ensuring quality in customer services and supplying reliable power. Indeed, the big portion of the domestic power infrastructure is outdated, and break-offs take place very often that result in power cuts and energy loss. Asian Development Bank reports that over 20% of all energy equipment and over the half of the network facilities are well beyond their useful life. This inevitably reduces the reliability and efficiency of the power network operation. High levels of physical wear of the equipment at power plants and networks lead to frequent power failures in populated areas and at the economic facilities in the country⁴². Thus, lack of reliable energy supply throughout the country can be considered as one of the energy security concerns for the government, and the latest structural reforms to mitigate this domestic security challenge also approves it.

³⁸ Ismayilov, Emil (February, 2015). "Azerbaijan prepares new energy product for export". Retrieved from <http://www.azernews.az/analysis/77471.html> on July 30, 2015.

³⁹ Interview with Toghrul Juvarli (July, 2015). An independent expert and the senior affiliate with Turan News Agency, Baku.

⁴⁰ President Ilham Aliyev chaired the meeting of the Cabinet of Ministers dedicated to the result of socioeconomic development in the first quarter of 2015 and objectives for the future (April, 2015). Retrieved from http://azertag.az/en/xeber/President_Ilham_Aliyev_chaired_the_meeting_of_the_Cabinet_of_Ministers_dedicated_to_the_results_of_socioeconomic_development_in_the_first_quarter_of_2015_and_objectives_for_the_future_VIDEO-845289 on August 1, 2015.

⁴¹ Ibid. Toghrul Juvarli (July, 2015).

⁴² Azerbaijan Economy and Power Sector: Challenges and Opportunities (2013), Janub Gas Fired Power Plant Project, Asian Development Bank. Retrieved from <http://www.adb.org/sites/default/files/linked-documents/43406-01-aze-oth-01.pdf> on August 1, 2015.

For instance, the “Development Concept: Azerbaijan - 2020: Outlook for the future”, which came out in December, 2012, includes also in the targeted measures the modernization of the oil and gas sectors and the petrochemical industry⁴³.

Consumers - citizens as well as corporate groups, such as private firms and companies that have offices in Baku and other regions of the country are another group of stakeholders significantly affected by the developments in oil and gas sectors and the domestic supply of gas and electricity. According to the State Statistical Committee report (2014) households and the commercial and public sector have been the main electricity consuming groups in Azerbaijan in 2013⁴⁴. Therefore, the changes in tariffs in electricity and gas supply have always had a crucial influence on customers that include citizens, non-governmental, profit and non-profit institutions and firms. For instance, the tariffs on electricity were suddenly raised 3 times in 2007⁴⁵, a first such rise since 1997, which forced many to switch to natural gas consumption, which paved a way for saving electric power for export. As indicated above, natural gas and oil comprise the most significant portion in consumers’ power utilization, meaning that energy security is a concern of this group of stakeholders too.

Customers are the ones who most radically suffer from monopolization of the domestic gas and electricity sector, which affects prices and infrastructure. Furthermore, construction of oil and gas pipelines and electricity and gas stations across the country can and does have an extra impact on the lives of citizens, not to mention the ecological side-effects and pollution. For example, the Caspian Sea has been significantly polluted as a consequence of oil explorations, and consequently, health and safety of people in adjacent local communities have become an issue, let alone the flora and fauna of the Caspian Sea. Declining sturgeon fish population, deteriorating air quality in the region, rising infertility rates among pregnant women and pathologies among newborns, contaminated soil and water reserves and other implications demonstrate the residual impact of the energy sector on citizens⁴⁶. We can observe a

⁴³ Azerbaijan in 2020: strategic vision and development priorities (January, 2015). Retrieved from <http://www.geopolitica.info/azerbaijan-2020/> on July 27, 2015.

⁴⁴ Energy of Azerbaijan (2014), State Statistical Committee. Retrieved from http://www.stat.gov.az/menu/6/statistical_yearbooks/indexen.php on July 31, 2015.

⁴⁵ Price of Petrol, Diesel fuel, Water, Electricity increased in Azerbaijan (January, 2007). Retrieved from <http://en.trend.az/azerbaijan/politics/870082.html> on August 1, 2015.

⁴⁶ Barnes, J. Alice & Briggs, S. Nicholas (2003), “The Caspian Oil Reserves The political, economic and environmental implications of “Black Gold” in the world market”, EDGE, Stanford University, pp. 1-25.

chain effect that the lack of accountability from the perspective of government and oil companies (regulation and governance) causes various ecological and health problems for local communities (environmental and social sustainability).

The experts - community representatives from “think tanks”, academic institutions and NGOs, as well as the political opposition - usually face difficulties in accessing data and statistics in energy sector, and/or are not able to reach official representatives of companies, state agencies to conduct survey and interviews for research or data collection with monitoring purposes. Tural Abbasov, a civil society and political activist, highlighted in his interview for this study that the data on oil and gas sectors is not easily accessible, and he has faced challenges while gathering information and seeking to interview officials⁴⁷. In addition to experts, the civil society activists and human rights groups are also affected, especially in terms of regulation and governance of dimensions of energy security as they can hardly access reliable data and are not able to influence any policies made in the energy sector. Thus, lack of transparency and difficulties in public access to information (regulation and governance) are features of energy security in contemporary Azerbaijan influencing the mid and lower strata of the society.

Thus, the stakeholders include, besides the government and oil corporations, the customers: citizens, local communities, corporate groups, civil society activists and organizations. For each of the stakeholders at least one or two out of the 5 defining variables mentioned above, apply to understand how they are affected by production, transmission and consumption of energy resources, thus, overall, in energy security.

Perception of energy security among stakeholders

In this part of the paper, the perception of energy security among different stakeholders is analyzed based on five variables: availability; affordability; technology development and efficiency; environmental and social sustainability; regulation and governance. The interviewees are asked questions on energy security in Azerbaijan, as such what the energy security is for them, which factors can ensure energy security, what the risks and threats are and how they can be mitigated. Due to certain

⁴⁷ Interview with Tural Abbasov (July, 2015), a civil society activist.

restrictions (time, political environment and accessibility) the capacity to hold interviews with representatives of companies and government agencies was limited⁴⁸. Therefore, the official perception of the state and the companies is mainly reduced to online sources (interviews, press releases). However, the interviews were conducted with representatives of the community experts: civil society activists, consumers (independent researchers and or affiliates of think tanks), representatives of universities and state funded research institutions, civil society activists and NGO representatives, and average individual customers differing in the area of dwelling (urban or rural), gender, types of households and occupation,.

Energy security as viewed by the state actors

As mentioned above, the government and the other state enterprises, such as SOCAR are the primary stakeholders in energy security. In one of his latest press statements, President Ilham Aliyev stressed the importance of the diversification of routes and supply sources to be the main tenet of energy security for Azerbaijan and Europe proper. He further added that energy security is nowadays a part of national security⁴⁹ itself. In his interview for the Greek newspaper, Rovnag Abdullayev, the president of SOCAR, stated that the diversification and security of energy supplies, the deepening of energy market reforms, the modernization of energy infrastructure, energy efficiency, energy savings and the use of renewable energy sources are key energy policy priorities for Azerbaijan⁵⁰. Furthermore, Energy Minister Natig Aliyev, in addressing the "Caspian Oil and Gas: 2015" exhibition stated that Azerbaijan possesses all necessary technological capabilities for implementing global natural gas projects, and as a gas producing and exporting country, it is a new source for ensuring the energy security of Europe⁵¹. Obviously, the government perceives its role as a critical one in

⁴⁸ A note: Most independent projects related to domestic policy and funded by the Western institutions or foundation have been declared as tools of the so called "5th Column" in Azerbaijan, which complicates conduct of interviews, first of all with government representatives, for such projects. The very recent statement made by the president Ilham Aliyev can give the best snapshot possible on this issue: "A lot of money has been spent to destabilize Azerbaijan. Money amounted to tens of millions has been exposed, which was transferred to '5th Column' via illegal channels in order to exacerbate situation in Azerbaijan through several NGOs and bring their own servants to the government"-Retrieved from <http://en.azvision.az/news.php?id=16650> on September 8, 2015.

⁴⁹ President Ilham Aliyev, President of the European Council, Donald Tusk made press statements (July, 2015). Retrieved from <http://azertag.az/en/xeber/872433> on August 1, 2015

⁵⁰ SOCAR president gives interview to Greek Newspaper (November, 2014). Retrieved from <http://www.socar.az/socar/az/news-and-media/news-archives/news-archives/id/7879> on August 1, 2015.

⁵¹ Azerbaijan is a new source of energy security for Europe (June, 2015). Retrieved from <http://azertag.az/en/xeber/860864> on August 1, 2015.

supplying Europe with reliable energy resources, especially against the background of the crisis in the Ukraine. UK Prime Minister David Cameron, in a letter addressed to the 22nd international Caspian Oil and Gas Exhibition held in Baku, stated that Azerbaijan's energy resources will play a role in the European and world economy and in the energy security of Europe⁵². He further stressed the important role of UK companies in the development of Azerbaijan's hydrocarbon sector⁵³. Cameron's statement is one of the examples of the political support and interest of the European countries in Azerbaijan's energy reserves, especially in the limelight of the crisis between Europe and Russia.. Seeing this as an opportunity, Azerbaijan has been asserting itself as a reliable alternative for Europe, based on the former's geostrategic location and rich resources. Azerbaijan seeks to increase its role in EU's energy security by becoming an important transit country apart from being a reliable supplier.

To a certain extent, Azerbaijan has gone a significant way on this path to be an independent energy supplier for the European markets; however its geostrategic location and tough political conditions have brought both the advantages and challenges which still continue to persist. Since the early 1990s, Azerbaijan's energy policy has been based upon the policy of diversification of transport routes, which has been thus far successfully accomplished considering its giant and competitive neighbors, as such Russia and Iran in the energy market⁵⁴. Russia, seeking to retain its position as the primary source of energy supply for the European market, has earned the pipeline diplomacy very significant political weight in the Caucasus and Central Asia. Since Putin's era started in 2000, Russia's foreign policy has integrated its energy policy as a crucial part of it, which has been used for national interest as well⁵⁵. Therefore the former has utilized different tools and political mechanisms to influence the countries in the region, including Azerbaijan⁵⁶. This is not warmly welcomed by the European countries which see the newly independent countries as a new source of energy supply.

⁵² Azerbaijan's resources to play role in Europe's energy security, says David Cameron (June, 2015). Retrieved from <http://en.trend.az/business/energy/2401411.html> on August 30, 2015.

⁵³ Ibid. Retrieved from <http://en.trend.az/business/energy/2401411.html> on August 30, 2015.

⁵⁴ Rovshan Ibrahimov (November, 2010), "Azerbaijan Energy Strategy and the Importance of the Diversification of Exported Transport Routes", Journal of Qafqaz University, pp. 23-29. Retrieved from http://journal.qu.edu.az/article_pdf/1039_452.pdf on August 29, 2015.

⁵⁵ Sevim, Varol. Tugce (2013), "Importance of TANAP in competition between Russia and Central Asia", International Journal of Energy Economics and Policy, Vol. 3, No. 4, pp. 352-359.

⁵⁶ News.az interviews Dr. Stefan Meister program officer at the German Council on Foreign Relations (July, 2012). Retrieved from <http://www.news.az/articles/63471> on August 31, 2015.

One of the interviewees, a lecturer on energy security at Baku State University (preferring to remain anonymous), underlined the current geopolitical situation as one of the threats to the energy security in Azerbaijan. He stated that the recent crisis in the Ukraine and Russia's aggressive stance cause certain concerns for Azerbaijan to remain as an independent, stable and alternative source and route of energy supply for Europe⁵⁷. Hence, as the experts underline and the statements of some European officials demonstrate, Russia's energy policy causes certain risks and challenges to the energy security of Europe, which also have a visible impact on Azerbaijan as well. However, the government of Azerbaijan has never openly demonstrated any concerns regarding Russia's efforts to retain its role as the primary supplier of oil and natural gas to the European markets by constructing some parallel pipeline routes - including the most recent project, the Turkish Stream. There is an assumption that the Turkish Stream if built and operational, will seriously hamper the importance of the TAP/TANAP projects; however in interview with Natural Gas Europe, a top official of SOCAR (who did not want to be named) stated that the Turkish Stream will not affect the gas projects of Azerbaijan to (and through) Turkey, and has further added that the president of Azerbaijan announced previously that Baku does not recognize this project as a rival for its European gas markets and that both projects will have their own clients⁵⁸. Turkish Energy Minister Taner Yildiz also confirmed that the Turkish Stream is not going to be a rival project with the TANAP pipeline⁵⁹.

It is very obvious that officially Azerbaijan would not take an overt approach to identify Russia and its actions (military or pipeline projects) in and around the region, posing serious energy security risks and challenges for Azerbaijan. However, since the early 1990s, as mentioned above, Azerbaijan seeks to pursue a policy of diversification of pipelines routes, which leads to certain disagreements or collision of interests between Russia and its former satellite in the region. On the other hand, Iran has been a major contender, especially causing a real challenge in regard to the legal status of the Caspian Sea. However, the positive outcome of the negotiations between West and Iran brings some perspective for cooperation between Azerbaijan and its southern neighbor,

⁵⁷ Interview with a Lecturer at Baku State University (July, 2015), specialized in energy security.

⁵⁸ Khatinoglu, Dalga (December, 2014). "Azerbaijan's Approach to the Turkey-Russia Gas MoU". Retrieved from <http://www.naturalgaseurope.com/azerbaijan-approach-to-russia-turkey-gas-mou> on August 29, 2015.

⁵⁹ Turkey and Azerbaijan begin the construction of the TANAP pipeline (March, 2015). Retrieved from <http://www.euractiv.com/sections/energy/turkey-and-azerbaijan-begin-construction-tanap-pipeline-312964> on August 31, 2015.

especially the possible joining of Iran to the TANAP/TAP project. Azerbaijan seems interested in involving Iran in the Southern Gas Corridor, which would raise the former's position in ensuring Europe's energy security. The government officials have also mentioned this opportunity: that gas from Iran as well as Central Asia, Iraq could be connected to the Southern Gas Corridor⁶⁰.

Besides the support of European political circles, the United States has been the key political supporter and initiator of the pipeline projects in the Caspian region, including the mega project Baku-Tbilisi-Ceyhan. The recent statement of U.S. Secretary of State, John Kerry also demonstrates the political support of U.S. in Azerbaijan's and Europe's efforts in diversifying alternative sources of energy, who also stressed on the importance of the Southern Gas Corridor on this respective issue⁶¹. Turkey is perceived as one of the most reliable partners of Azerbaijan according to the expert interview, the partnership between Azerbaijan and Turkey in energy sphere is in the specific interests of the latter to turn on to an energy hub in the region⁶². In addition, the government, though proud of becoming a reliable alternative source of supply to meet Europe's energy demands, always raises concerns about physical threats to the pipeline systems, such as terrorist attacks or conflicts.

In this framework, it is very common to hear that the conflict with Armenia over Nagorno-Karabakh is a threat to regional stability. For instance, Defense Minister, Zakir Hasanov mentioned at a meeting with Iran's Defense Minister that the Nagorno-Karabakh conflict is the main threat to stability in the region⁶³. The latest two terrorist attacks on SCP in Turkey in August demonstrated that the physical security of the pipelines is a serious challenge to tackle. After the first attack, SOCAR stated that Azerbaijan did not suffer any losses since the supply was suspended due to maintenance work few hours before the explosion⁶⁴. In addition, considering that the

⁶⁰ Tully, Andy (June, 2015). "Could Iran play a part in EU energy security?". Retrieved from (<http://oilprice.com/Latest-Energy-News/World-News/Could-Iran-Play-A-Part-In-EU-Energy-Security.html>) on July 31, 2015.

⁶¹ John Kerry: We support role of Azerbaijan in ensuring European energy security (May, 2015). Retrieved from <http://report.az/en/foreign-politics/john-kerry-we-support-role-of-azerbaijan-in-ensuring-european-energy-security/> on August 25, 2015.

⁶² Ibid. Interview with a Lecturer at Baku State University (July, 2015), specialized in energy security.

⁶³ Azerbaijan considers Nagorno-Karabakh as main threat to stability in the region (April, 2015). Retrieved from <http://en.trend.az/azerbaijan/politics/2386048.html> on August 5, 2015

⁶⁴ BP-Azerbaijan: Baku-Tbilisi-Erzurum doesn't belong to Azerbaijan (August, 2015). Retrieved from <http://www.news.az/articles/economy/100072> on August 5, 2015

BTC pipeline was also damaged in the August War between Russia and Georgia in 2008⁶⁵, suspension of energy supply due to external reasons definitely raises security questions. Apparently, concerning the current geopolitical complications in the region, including the war in the Ukraine, Russia's aggressive stance in regional affairs, and the possibility of escalation of the war in Nagorno-Karabakh, are major regional challenges to the stability in the region which are usually raised as concerns by the officials, as mentioned above. In other words, integrity, stability and geopolitics play as very important variables (as definitions within the framework of governance and accountability) in this study (energy security in Azerbaijan) from the government and/or state perspective.

In regard to domestic energy security, Ilham Aliyev, addressing the meeting of Cabinet of Ministers, acknowledged that despite installation of new power plants and generators, the energy infrastructure in the regions is obsolete, which causes supply disruptions in stormy weather, and Azerishig has been established to improve the power supply across the country⁶⁶. It was also stated above that the gasification of the regions has not been completed, which is another energy security issue at a domestic range. SOCAR representative told reporters that \$ 950 million will be spent on projects in Azerbaijan in 2015, which includes the gasification of the rural areas and pipe-laying work⁶⁷. It is likely that full gasification across the country can render more electricity to be saved for export because consumers prefer gas over electricity due to the price differences as well. In other words, reliable power supply in the domestic sphere can positively change the country's role as a reliable electricity supplier to neighboring countries. Hence, energy security for the government and state enterprises, such as SOCAR is to saturate the domestic market with reliable power, and transport oil and the natural gas to international markets uninterrupted through various pipeline projects, such as BTC and Southern Gas Corridor. The government does not seem too worried about availability of resources (security of supply) or technological development; at every instance, it is emphasized that new legislative measures and rules are being adopted to facilitate competition in the domestic power market. However, as it was underlined previously, the state is aware of the power supply disruptions in the

⁶⁵ Blast halts Azeri oil pipeline through Turkey (August, 2008). Retrieved from <http://www.reuters.com/article/2008/08/06/us-turkey-pipeline-explosion-idUSSP31722720080806> on August 5, 2015

⁶⁶ Ibid. President Ilham Aliyev chaired the meeting of the Cabinet of Ministers dedicated to the result of socioeconomic development in the first quarter of 2015 and objectives for the future (April, 2015).

⁶⁷ SOCAR to invest 1B manats in projects in 2015 (April, 2015). Retrieved from <http://www.today.az/news/business/139887.html> on August 3, 2015.

domestic sphere and energy efficiency (which can be considered as energy security) challenges for the state at micro level (internal market).

Transnational corporations

Oil companies are also considered primary stakeholders with an upper-hand position in energy security in Azerbaijan because they are directly involved in exploration, production, transmission and export phases in the oil and gas sectors. They have invested billions of dollars with the purpose of receiving more profit as a result. In one of his interviews with press, Gordon Birrell, BP's Regional President for Azerbaijan, Georgia and Turkey has stated that there are plenty of new offshore oil and gas opportunities existing in the Caspian, and BP's has the priority to keep the level of production in ACG stable and deliver operation and projects safely and reliably⁶⁸. He has stated that the ACG oilfield has the potential to remain one of the world's largest producing fields for decades to come; however to remain productive, the field will require continual investment and production optimization through the most efficient ways⁶⁹. As BP's Vice President for the development of the Shah Deniz field and the Southern Gas Corridor, Joe Murphy states, Shah Deniz 2 project, by the expected 16 billion cubic meters per year, will provide a new source of gas for Europe that is secure, affordable and sustainable⁷⁰. Hence, the major foreign operating company does not have serious concerns about the availability of the resources, but it is eager to utilize new technologies to have energy efficiency and keep a stable rate of production.

Safety and environmental matters have been always among the top priorities of BP too. Moreover, the physical safety of the pipelines is obviously a concern although it is not officially raised as a question. There are stringent security measures taken to protect the pipeline route across Azerbaijan and the transiting countries, such as cameras,

⁶⁸ Interview with Gordon Birrell, BP's Regional President for Azerbaijan, Turkey and Georgia (2014). Retrieved from <http://www.socarplus.az/en/article/441/interview-with-gordon-birrell-bp%E2%80%99s-regional-president-for-azerbaijan-turkey-and-georgia> on August 3, 2015.

⁶⁹ Future Intentions: Azerbaijan's ACG oilfield (January, 2015). Interview with Gordon Birrell, BP's regional president for Azerbaijan, Georgia and Turkey. Retrieved from <http://www.theoilandgasyear.com/interviews/future-intentions-azerbaijans-acg-oilfield/> August 1, 2015.

⁷⁰ Interview with Joe Murphy BP's vice president-Southern gas corridor (March, 2015). Retrieved from <http://caspiabarrel.org/?p=27802> August 2, 2015.

armed patrols, constructed blast walls⁷¹, but the latest explosions (claimed to be terrorist attacks) on the Baku-Tbilisi-Erzurum pipeline (the other name for the South Caucasus Pipeline) demonstrated that physical security is a serious concern. Interesting enough that BP Azerbaijan made a statement regarding the first blast that the pipeline does not belong either to BP or Azerbaijan and it is rather BOTAS (Turkish company) to deal with it⁷². Regarding the second blast (which occurred on 25 August), it was stated by the BP spokesperson that the feeding to the pipeline was restarted after 20 days of maintenance work till August 22, and despite the explosion the gradual feeding will continue⁷³.

BP has said little about the fact of Russia taking possession of a 1-mile section of another BP operated oil pipeline, Baku-Supsa; that the company has long intended to abandon the captured part of the line and replace it with a new section further inside Georgia⁷⁴. Thus, stability and ensuring of regional peace (regulation and governance) and security of supply (availability) would be considered as major energy security concerns for the oil corporations. The lecturer at Baku State University also mentioned during the interview that stability (regulation and governance) and predictability of the situation and ensuring uninterrupted energy supply (availability) are the major concerns for the oil companies operating in Azerbaijan⁷⁵.

Civil society's views on energy security.

The group of researchers, experts (affiliated with universities, think tanks and civil society organizations) and civil society activists who were interviewed during the field work for this research, shared views on energy security at a geopolitical level with the state actors, but diverged in their views on the role of different components of

⁷¹ Peterson, Alexandros (July, 2006), "BTC security questions persist". Retrieved from <http://www.eurasianet.org/departments/business/articles/eav071106.shtml> on July 15, 2015.

⁷² Ibid. BP Azerbaijan: Baku-Tbilisi-Erzurum does not belong to Azerbaijan (August, 2015). Retrieved from <http://www.news.az/articles/economy/100072> on August 5, 2015.

⁷³ Another explosion at Baku-Tbilisi-Erzurum gas pipeline not affects operation of Shah-Deniz platform (August, 2015). Retrieved from <http://www.caspianenergy.net/en/oil-and-gas/25474-another-explosion-at-baku-tbilisi-erzurum-gas-pipeline-not-affects-operation-of-shah-deniz-platform> on August 26, 2015.

⁷⁴ LeVine, Steve (August, 2015), "A second U.S. backed energy pipeline has been attacked, this time in Turkey". Retrieved from <http://qz.com/471737/a-second-us-backed-energy-pipeline-has-been-attacked-this-time-in-turkey/> on August 5, 2015.

⁷⁵ Ibid. Interview with a Lecturer at Baku State University; specialized in energy security (July, 2015).

energy security. Most of the experts upheld that it is hard to define energy security and to some extent, its identification is based on subjective perception and experience. According to Toghrul Juvarli, energy security is not necessarily about the availability of the resources, demand for oil and natural gas in the market and the physical security of the pipelines, especially since Azerbaijan is abundant in resources to supply the market.

More important in the country context is that energy abundance leads to excessive spending of fiscal revenues received from the export of energy resources, thereby resulting in the destruction of the economy. Effective spending of the revenues is the way to avert any resource curse backlashes, with the development of alternative energy sources as one of the options. The expert stressed that for Azerbaijan, the most outstanding energy security challenge is the lack of competition in the system (regulation and governance) in which the oil/gas sector and fiscal sphere are in the hands of SOCAR, subsequently the state. In Azerbaijan, the government is not interested in the development of diverse trade sector because fast money comes through the oil and natural gas industries⁷⁶. This claim is relevantly confirmed in the annual report of SOFAZ that trade comprises only nearly 8% of the total GDP in the domestic economy and agriculture is 5.3%, whereas 41.5% stands for industry⁷⁷. This argument was also mentioned by the local academic researcher who stressed the fact that in Azerbaijan, energy is security for elite groups rather common people. Hence, the depletion of oil resources and falling prices are security concerns obviously for this can cause problems for certain groups in earning fiscal revenues to “buy” strategic elites. For him, energy security has been artificially exaggerated by the elite to become one of the top concerns in order to demonstrate the importance of Azerbaijan for Europe, especially after the crisis in the Ukraine⁷⁸. Ilham Shaban, the expert in the Caspian Barrel research institute also stated that ordinary citizens are not interesting for the government, and the energy security is about taking all measures for prolonging life of the ruling elite in power⁷⁹.

Most of the experts and civil society activists shared the idea of stability and predictability-security of supply (availability) as major concerns in ensuring energy security in Azerbaijan. In particular, the Baku State University’s lecturer underlined that

⁷⁶ Ibid. Toghrul Juvarli (July, 2015).

⁷⁷ Ibid. SOFAZ Annual Report 2014 (August, 2015).

⁷⁸ Ibid. Interview with the local academic researcher (August, 2015).

⁷⁹ Ibid. Interview with Ilham Shaban (July, 2015).

the conflict in Nagorno-Karabakh, the Russian-Ukrainian crisis and Russia's attempt to own the part of the BP operated pipeline across Georgia are indicators that the pipelines can be and are under physical threat. The latter case has been raised as a concern by EU and Georgian officials, but Russia has denied the accusations although in fact, due to expansion of its borders, nowadays Russia controls the part of the pipeline⁸⁰. Hence, though the region is thus far stable, the security of supply can be indeed challenged if Russia is eager to manipulate this special case. Moreover, lack of transparency, accountability and legitimacy of governance are also factors that contribute to energy insecurity in Azerbaijan⁸¹. According to Ilham Shaban, predictability is an important dimension of energy security in Azerbaijan because currently the state institutions do not cooperate with each other very well as all of them are driven by specific group interests. In other words, these groups are not interested in sharing information, which results in lack of communication.

Henceforth, the future of the energy sector is difficult to predict in Azerbaijan⁸². The failure of the state to develop alternative sources of energy causes energy security problems in case of depletion of oil resources, and so can become a major energy security issue for Azerbaijan⁸³. The political opposition activist also mentioned that safety (physical security of the pipelines,), transparency and accountability are to be ensured to guarantee energy security in Azerbaijan. Corruption is the biggest threat to transparency and accountability which can also cause an issue of safety as a domino effect. For Tural Abbasov, citizens of the country have a minimal role in energy policymaking in Azerbaijan, if at all, since they are not asked and not even allowed to express their opinions on these matters. This is due to lack of transparency and accountability, resulting from the fact that the change of power does not take place through transparent and competitive elections. Regarding the other macro projects, such as TANAP/TAP, people do not have any role at all⁸⁴. Another civil society activist and the expert in economics, Rashad Hasanov, underlined self-sufficiency (availability) as a major factor in ensuring energy security, meaning that energy demand is supplied by internal production; however production would not be possible without investment,

⁸⁰ Grove, Thomas (July, 2015). "EU Warns of Increased Tensions Between Georgia and Russia". Retrieved from <http://www.wsj.com/articles/eu-warns-of-increased-tensions-between-georgia-and-russia-1437061362> on September 3, 2015.

⁸¹ Ibid. The lecturer at Baku State University (July, 2015).

⁸² Ibid. Ilham Shaban (July, 2015).

⁸³ Ibid. Interview with the local academic researcher (August, 2015).

⁸⁴ Ibid. Tural Abbasov (July, 2015).

so both self-sufficiency and investment (availability and affordability) are two major indicators in ensuring energy security. However, in Azerbaijan there is no market mechanism for prices, which are solely under state control⁸⁵. The other interviews also stress that the market does not play any significant role in determination of the prices for energy in Azerbaijan⁸⁶. As a logical conclusion for the price control mechanism in Azerbaijan the fall of oil prices internationally did not lead to the fall of the price for gasoline, but rather increased it. Tural Abbasov also highlighted this situation as a result of lack of accountability and competition⁸⁷. For Ilham Shaban, lack of vision, fear, falsification and non-transparency of governance in Azerbaijan cause fundamental problems also in the area of energy security. He stated that the countries can be fully secure in availability and affordability of energy; however this will not guarantee provision of human rights and basic liberties, which is a pressing issue in contemporary Azerbaijan⁸⁸. The other local scholar however commented that with more energy supplies secured, the government obtains more resources and funds to silence dissenting voices by strengthening the security apparatus, and the more oil money it gained, the less cooperation with domestic non-state actors it needed until the point that independent civil society has no longer been needed and has been almost completely dismantled in 2014.

In the case of Azerbaijan when the state is controlled by self-serving elites with narrowly-defined interests, the government increasingly acts in ways that put the public's longer term energy security at risk, such as when it indulges in over-spending of the revenues in the short term at the expense of future generations. Such a government tends to prioritize a lucrative energy deal with oil multinationals which contributes to energy security, but on conditions that deliberately or inadvertently violate the political freedoms of citizens or local communities⁸⁹. The representative of the environmentalists asserts that technological development which leads to ecological safety and energy efficiency is the major guarantor of energy security; however the importance of political stability to prevent any physical threats is not to be excluded. While convinced that individuals and society should be environmentally responsible and active (not only the state and the companies), he also recognized objective limitations of that in Azerbaijan as a result of fear and restricted freedom of expression⁹⁰. Hence,

⁸⁵ Ibid. Rashad Hasanov (July, 2015).

⁸⁶ Ibid. Toghrul Juvarli (July, 2015).

⁸⁷ Ibid. Tural Abbasov (July, 2015).

⁸⁸ Ibid. Interview with Ilham Shaban (July, 2015).

⁸⁹ Ibid. Interview with the local academic scholar (August, 2015).

⁹⁰ Ibid. Interview with the Expert on Environmental Issues (July, 2015).

for most of the interviewees, lack of resources (availability) is not is not an issue in energy security concept for Azerbaijan's society and not state actors , but it is rather about effective spending of fiscal revenues and diversification of the economy to avoid the resource curse, which requires strong mechanisms of regulation and governance.

Thereby, all interviewees have underlined lack of transparency and accountability as the major threats to energy security in the country. Some have been very critical of the current political system calling it corrupted and deflated, with the economy under the monopoly of the oligarchs. Civil society activists stressed that the price of gas and electricity are hardly affordable by people and they increase sharply rather than gradually. The civil and political activist Tural Abbasov confirmed that he has never seen any direct benefit of oil revenues either as a significant rise of salaries or in other forms, and the wealth is unequally distributed⁹¹. While the government's capacity to conduct small scale reforms, such as application of new technologies, or some improvements in banking system, is recognized by experts, yet structural reforms do not work since the economy is monopolized, thereby the relations between people and government agencies are based on corruption. Furthermore, the government is not interested in the development of sectors where large number of people could be employed, such as agriculture⁹².

Experts see the diversification of economy and effective management of the revenues as the most important strategy to cope with the threats and risks posed by energy security. They see privatization as the way to increase transparency, accountability and efficiency because citizens feel more free in demanding their rights vis-a-vis private organizations, than the state ⁹³.

Consumers: small businesses, households and vulnerable groups

Communities, or households, along with public enterprises, are the largest consumers of energy in the country in the form of natural gas, electricity and gasoline. Among interviewees there were heads of households who did not wish their names to be

⁹¹ Ibid. Interview with Tural Abbasov (July, 2015).

⁹² Ibid. Interview with Toghrul Juvarli (July, 2015).

⁹³ Ibid. Interview with Rashad Hasanov (July, 2015).

revealed⁹⁴. However, fake names will be used to personalize the interviewees. One of them, Elshan Ahmadov (the name is attributive), in his late 30s, who received his BA in International Law at Baku State University, could not find a proper job and was forced to start working as a taxi driver to feed his family. He questioned that if oil revenues brought any significant positive changes, why have people then been struggling to find jobs? He mentioned that salaries of people are raised just enough to pay the raised electricity, gas and other bills, so the living conditions of people do not get any better. For him, the utmost concern is the price rise of gasoline in Azerbaijan, which makes it hard to earn enough money to spend on basic necessities. He also complained about the biased behavior of the policemen against the taxi drivers in comparison with rich people, therefore no rules work effectively in this country and the system is corrupt. Elshan further stated that his son (13 years old) was asked to pay a certain amount of money to guarantee a "good" grade in high school. He commented on this fact that the government imposed irregularities to make people get used to paying bribes so it becomes part of their daily business making it easier for people to get what they want⁹⁵.

Another driver, Shahin Orujov (the name is attributive), in his mid-60s, has worked as a taxi driver for 30 years already, right after moving to Baku from Armenia in late 1980s when the conflict over Nagorno-Karabakh was just sparking between Azerbaijan and Armenia. Shahin was relatively less critical of the current regime, and apparently tried to make a difference between the president and the others in the government. He said that it is not the fault of the president for all that is happening around since he is one person and he cannot supervise everything. He was however also on the same page as the other driver in that the price of the gasoline is hardly affordable and it lessens the chances of having many clients per day because the rise of the price affects the charge per drive as well, so people prefer public transport instead. He is sometimes concerned about the availability of gasoline in the gas stations (the problem of availability), thinking that when the resources finish, the situation will be hard and the price for the energy products will skyrocket if we import it due to unreasonably high customer tariffs. To add to this, he stated that he felt very insecure about the current situation and was afraid of further prices in the near future, in which case he would have to work two shifts every day to keep his income stable to feed his kids⁹⁶.

⁹⁴ Total 6 heads of households were interviewed, representatives of small private business, clerks and students. .

⁹⁵ Interview with a taxi driver 1 (July, 2015).

⁹⁶ Interview with a taxi driver 2 (July, 2015).

The other person that was interviewed is a small size market owner in the neighborhood. He is 33 years old and not married. He was very critical of the government bodies, such as the representatives of the Ministry of Taxation who expect him to pay illegally to run his small business. He said that he had few times applied to work in state agencies, but had been denied any employment opportunities because he did not have relevant experience, while he knew few people who have managed to get jobs without knowing anything in the appropriate spheres. For him the most worrying thing about energy is the expense of natural gas and electricity that costs a lot when he doesn't have any additional savings, just daily income. He said that in some families, their salary does not cover communal bills, but he thinks that if he is to believe in what he hears in media (TV mainly), the government actively supports people and raises salaries, but he never sees its impact upon people⁹⁷. It is to be underlined that those three interviewees have no sign of awareness about the pipeline projects that the government and foreign companies are working upon. The other point which did not go unnoticed is the basic wish of people to feed their families and stay out of trouble.

Clearly, for all those customers, the price of the energy products such as electricity has been a major security issue and people can hardly pay the bills. In other words, affordability is a big concern for the customers. They indirectly mentioned about the rules (regulation and governance), transparency and accountability that do not exist in Azerbaijan in practical terms. The issue of governance becomes more profound at the level of vulnerable groups. The head of a rural household, a 35 year old divorced woman with a child and an elderly mother, Sevil Ismayilova (the name is attributive) resides in one of the villages around Baku. For Sevil, energy security is the uninterrupted supply of gas and electrical power with affordable prices for citizens. She underlined the importance of the inequality in distribution of oil revenues and as the most important characteristic of a risk or threat related to the energy security in Azerbaijan, including the importance of the environment and ecology⁹⁸. This interview also demonstrates that at this level of income, affordability and availability are very important factors. Sevil also mentioned the case that Azerigas representatives have been abusing their authority and have added some illegal taxation charges to be paid by her own household⁹⁹. Thus the interview revealed the vulnerability of citizens being held responsible for additional "taxes" on power utilization, which indicates the lack of

⁹⁷ Salesman in the neighborhood market (July, 2015).

⁹⁸ Interview with the woman from the Baku village (August, 2015).

⁹⁹ Ibid. Interview with the woman from the Baku village (August, 2015).

accountability of the state agencies. In fact, the agencies purposefully pick up on poor people who do not have any linkages with somebody in authorities.

A student (preferred to stay anonymous) who studied abroad and is currently working as an expert in agriculture in the regions of the country, perceives a major concern in energy security for Azerbaijan as a problem arising after the oil/gas era is over; for him, the current administration should focus on the development of the non-oil sector to ensure energy security in the long-term perspective. He also mentioned an example of the agriculture sector where the government agencies spend money, but never follow up on receiving effective results, so the investments made, go “one way” and do not return back with excess profit. For him, transparency, accountability and people’s access to information are the primary factors to be included as a part of the energy security component. Consequently, a big portion of people living in poor conditions, underdevelopment of the social welfare system, and the lack of transparency are the indicators of an unequal distribution of the oil revenues. To avoid this trap, employment opportunities, technological development (technology development and efficiency) and investing in long-term sustainable areas of economy should be the priority of the government to avoid any serious challenges when hydrocarbon reserves are not available any more¹⁰⁰. This interview with the representative of this social group also confirmed that regulation and governance is the ultimate challenge for energy security of the oil rich state.

Findings & Conclusion

This study is an attempt to tailor the concept of energy security to the diversity of stakeholders within a particular country and to overcome at the conceptual and methodological level the factual absence of non-state actors in the definitions, negotiations and perceptions of energy security, against the background of these actors becoming an increasingly important factor in the provision of energy security. The study contributes to overcoming the asymmetry of bilateral energy relations, first of all between the EU and Azerbaijan in terms of governance and state/society relations. This asymmetry results from the different sources of legitimacy of the leadership of the two parties and the lack of transparency and accountability of the country-producer.

¹⁰⁰ Student in Agricultural Sector (August, 2015).

The pilot research suggested application of the bottom–up approach which would open the concept to various interpretations from below, depending on the role of the particular country in the energy trade chain, as well as contributing to the energy security from the perspectives of non-state actors. The paper has been focusing on analysis of the perception of various stakeholders in energy security of the country-producer based on the five definitions: availability, affordability, technology development and efficiency, environmental and social sustainability, and regulation and governance, suggested by Sovacool and Mukherjee¹⁰¹. As an initial step, stakeholders in the energy security in Azerbaijan were identified and interviews were held with the people representing the various groups of stakeholders¹⁰².

This research shows that resource availability is not a prime concern for Azerbaijanis for the time being, while diversification of economy and effective spending of oil revenues is needed to guarantee long-term energy security by developing renewable energy sector. Most alarming, however, is the high dependence of the country producer's economy of hydrocarbon resources, which makes it vulnerable to external shocks, as it was demonstrated during the most recent dramatic decline of the world oil prices. The economic crisis and devaluation of the national currency (Manat), proved that so far the government has not succeeded in effective spending of the oil revenues, nor has there been any visible growth either in the renewable energy sector or within agriculture.

On the other hand, security of supply can be seriously challenged in the case of any regional threats to stability and security, which can be associated with the interests of the government and oil companies. Stability/predictability as the components of availability is perceived very important by the expert community, state and corporations to ensure energy security domestically and also at the regional level. Affordability is the definition that mainly concerns the customers-citizens and the industry representatives who are considered as the primary consumers of energy in the domestic market, since the rising price of power and electricity directly affects the consumers. Furthermore, according to the State Statistical Committee, a single Azerbaijani customer's expenditure on gas, electricity and other fuels comprises 9.7 percent of his total income

¹⁰¹ Ibid. Sovacool, B.K & Mukherjee, I (2011)

¹⁰² However, as it was mentioned above, due to certain political restrictions it was hard to arrange interviews with all of the stakeholder groups. Heretofore, the position of the state officials and the representatives of various oil companies have been deduced by referring to various sources, including the interviews with other agencies and the press releases.

per month¹⁰³, which is actually a big slump of expenditure taking into account that the wages are not as high as indicated in the official reports. In addition, this percentage of consumer expenditure (9.7 %) on domestic power may possibly be incorrect and higher than it is indicated by the governmental agency. Investment, employment and technological development have been emphasized by all interviewees to a great extent as important indicators of energy security, especially on how to avert risks and threats.

Environmental problems have not been directly underlined as being as important as the other components of energy security, except for the environmental activist from the National Academy of Sciences; however the economic problems and unfair distribution of oil revenues are to be included as parts of social sustainability dimension, since it is the cause and outcome of the whole energy security concept in Azerbaijan. Regulation and governance (and its components, such as transparency, accountability and legitimacy) is the most underlined definition of the energy security in Azerbaijan. Most of the interviewees stressed the fact that the corrupt political system and monopoly in the economy undermine the energy security in Azerbaijan rendering social unrest prevalent among people.

The fall of oil prices almost twice in less than a year has caused serious problems for the government since the economy depends on oil revenues to a significant extent (65percent). There is a domino effect of the fall of oil prices in the international market - influencing construction, housing, social expenditures and other spheres of economy and state programs. In addition, the intervention of the Central Bank to prevent further depreciation of the domestic currency costs billions of dollars each month. According to the Fitch Rating, the current account surplus will narrow down to 6 % of GDP in 2015 from 16 % in 2015, whereas the economic growth will fall to 1.5 % in 2015, and due to weak the business climate, diversification of the economy will not yield any visibly positive impact¹⁰⁴. In a country that hydrocarbon exports revenues accounted for 95% of total export revenues, and 64 % of total fiscal revenues, the impact of the falling oil prices has not gone unnoticed and it is expected to have further repercussions on its oil

¹⁰³ The State Statistical Committee of the Republic of Azerbaijan (August, 2015). Retrieved from http://www.stat.gov.az/source/budget_households/indexen.php on September 3, 2015.

¹⁰⁴ Fitch Ratings: Revise State Budget of Azerbaijan Tied to Oil Prices (May, 2015). Retrieved from <http://www.contact.az/docs/2015/Economics&Finance/051400115984en.htm#.Vflr5hHtmko> on September 4, 2015.

dependent economy¹⁰⁵. Many people assume that a new wave of devaluation will take place in a few months, after the Parliamentary elections are over in early November.

The political responses to the economic crisis are hard to predict, but it can vary from domestic instability to aggravation of the “frozen conflict”¹⁰⁶. The critiques claim that the government is supposed to adopt urgent anti-crisis measures (eg. fighting corruption, limiting monopolization, reducing inflation in the consumer market), create conditions for untroubled flow of foreign investment, and hear initiatives and appeals from independent economists, instead of persecuting and restricting their activities¹⁰⁷. Hence, due to lack of accountability and transparency, the government has wasted billions of dollars and did not conduct visibly effective economic and political reforms when oil revenues reached their peak a couple of years ago, which may turn into a series of significant challenges within political, economic and social contexts.

The current government focuses on criticizing the international community instead of initiating some radical and effective reforms. The president, Ilham Aliyev, blames certain unnamed external groups in seeking to overthrow him through the “5th Column” in the country and sees solidarity between government and the nation as a guarantee of stability in Azerbaijan¹⁰⁸. However, so far the source of power for the government has been the patronage system fed by the oil revenues, rather than any “social contract” between the state and people, because as the research showed, the two have fallen far apart from each other, and energy security in Azerbaijan misses a crucial element - the interests and welfare of its citizens.

The study is an attempt to remind public stakeholders about the ultimate goal of the energy security – the provision of an uninterrupted supply of oil and gas to the average

¹⁰⁵ Ibid. Assessment of Effect of Declining Oil Prices on Azerbaijan Economy (December, 2014). Retrieved from http://cesd.az/new/wpcontent/uploads/2014/12/Assessment_of_Effect_of_Declining_Oil_Prices_on_Azerbaijan_Economy.pdf on August 31, 2015.

¹⁰⁶ Nigmatulina, Anna (March, 2015), “Tensions reignite in the Nagorno-Karabakh conflict”. Retrieved from <http://www.aljazeera.com/indepth/features/2015/03/tensions-reignite-nagorno-karabakh-conflict-150303121751335.html> on September 7, 2015.

¹⁰⁷ Ilham Aliyev: They want to establish another ‘Maydan’ (September, 2015). Retrieved from <http://en.azvision.az/news.php?id=16650> on September 8, 2015.

citizen in all states that are members of the energy supply chain. The open questions and bottom-up approach have allowed the bringing to the fore of the typical views of the major beneficiary of the energy security: ordinary customers and households in the countries concerned. This approach may appear to be a useful tool for the analysis of the broader geography of energy relations between the West and the East and raise an awareness of the human dimension and social and political implications when assessing the threats to energy security.