



## CRS Report for Congress

# Azerbaijan: Recent Developments and U.S. Interests

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### Summary

This report discusses political, economic, and security challenges facing Azerbaijan, including the unsettled conflict in the breakaway Nagorno Karabakh region. A table provides basic facts and biographical information. This report may be updated. Related products include CRS Report RL33453, *Armenia, Azerbaijan, and Georgia, Political Developments and Implications for U.S. Interests*, by Jim Nichol.

### U.S. Policy

According to the Administration, Azerbaijan needs to bolster its commitment to democratization and respect for human rights in order “to be a reliable partner of the United States and to ensure that the country’s energy revenues are used to improve the lives of its citizens.” Azerbaijan is viewed as a regional security partner of the United States in combating money laundering, terrorist financing, corruption, and trafficking in weapons of mass destruction, narcotics, and humans. U.S. security assistance improves the interoperability of Azerbaijan’s troops with U.S. forces in Iraq and the capabilities of its naval forces “in the resource-rich Caspian Sea.” Another major focus of U.S. aid is diversification of Azerbaijan’s economy away from over-reliance on the energy sector (*Congressional Budget Justification for Foreign Operations, FY2009*).



Source: Map Resources. Adapted by CRS. (K. Yancey 3/10/05)

Cumulative U.S. aid budgeted for Azerbaijan from FY1992 through FY2007 was \$752.2 million (FREEDOM Support Act and agency funds). Almost one-half of the aid was humanitarian, and another one-fifth supported democratic reforms. In FY2007, U.S. budgeted assistance to Azerbaijan was \$74.5 million (FREEDOM Support Act and

agency budgets). In FY2008, U.S. budgeted assistance was \$28.4 million, and the Administration requested \$26.925 million for FY2009 (for both years, includes FREEDOM Support Act, Peace Corps, and other foreign aid and excludes Defense and Energy Department funds and food aid). The highest priority for FY2009 aid will be democratization aid to combat corruption, promote government transparency, foster independent media, strengthen the legislature, and bolster civil society. Security assistance will be the next-highest priority, and will focus on fostering military interoperability with NATO forces, improving maritime and airspace management capabilities, and bolstering border controls. Another priority is economic aid to encourage non-energy private sector growth, government budgetary transparency, poverty reduction, job creation, and anti-inflationary strategies. No aid was requested in FY2009 for conflict mitigation and reconciliation. Since FY2004, Azerbaijan has been designated

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

Congressional concerns about the ongoing NK conflict led in 1992 to Section 907 of the FREEDOM Support Act (P.L. 102-511) that prohibited most U.S. government-to-government assistance to Azerbaijan until the President determined that Azerbaijan had made “demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh.” Congress eased many Section 907 restrictions on a year-by-year basis until the terrorist attacks on the United States in September 2001, after which it approved an annually-renewable presidential waiver (P.L.107-115). The conference managers stated that the waiver was conditional on Azerbaijan’s cooperation with the United States in combating terrorism and directed that aid provided under the waiver not undermine the peace process. Congress has called for equal funding each year for Foreign Military Financing and International Military Education and Training for Armenia and Azerbaijan.

Other congressional initiatives have included the creation of a South Caucasus funding category in FY1998 to encourage an NK peace settlement, provide for reconstruction, and facilitate regional economic integration. Congress also has called for humanitarian aid to NK, which has amounted to \$29 million from FY1998 through FY2007. Congress passed “The Silk Road Strategy Act” in FY2000 (as part of

#### Basic Facts

**Area and Population:** Land area is 33,774 sq. mi.; about the size of Maine. The population is 8.2 million (*The World Factbook*; mid-2008 est.). Administrative subdivisions include the Nakhichevan Autonomous Republic (NAR) and the Nagorno (“Mountainous”) Karabakh Autonomous Region (NK). NK’s autonomy was dissolved in 1991.

**Ethnicity:** 90.6% are Azerbaijani; 2.2% Dagestani; 1.8% Russian; 1.5% Armenian, and others (1999 census). An estimated 6-12 million Azerbaijanis reside in Iran.

**Gross Domestic Product:** \$72.2 billion; per capita GDP is about \$9,000 (*World Factbook*; 2007 est., purchasing power parity).

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

**Biography:** Ilkham Aliyev, born in 1961, graduated with a kandidata (advanced) degree from the Moscow State Institute of International Relations in 1985 and then taught history. In 1991-1994, he was in business in Moscow and Baku, then became head of the State Oil Company (SOCAR). He was elected to the legislature in 1995 and 2000. In 1999, he became deputy, then first deputy chairman, of the ruling New Azerbaijan Party. In August 2003, he was appointed prime minister, and was elected president in October 2003.

consolidated appropriations, P.L. 106-113) calling for enhanced policy and aid to support conflict amelioration, humanitarian needs, democracy, economic development, transport and communications, and border controls in the South Caucasus and Central Asia.

## Contributions to the Global War on Terrorism

After the terrorist attacks on the United States on September 11, 2001, Azerbaijan “granted blanket overflight clearance, engaged in information sharing and law-enforcement cooperation, and ... approved numerous landings and refueling operations ... in support of U.S. military operations in Afghanistan,” according to the State Department’s *Country Reports on Global Terrorism 2007* (released April 2008). Azerbaijan has participated in International Security Assistance Force (ISAF) operations in Afghanistan since late 2002 (about 45 Azerbaijanis were deployed there as of mid-2008). In August 2003, Azerbaijani troops began participating in the coalition stabilization force for Iraq (as of mid-2008, 150 Azerbaijanis were deployed in Iraq). To support the Global War on Terrorism, Azerbaijan also “has aggressively apprehended and prosecuted members of suspected terrorist groups,” according to the *Report*.

## Foreign Policy and Defense

President Ilkham Aliyev has emphasized good relations with the neighboring states of Georgia and Turkey, but relations with foreign states have often been guided by their stance regarding the NK conflict. Azerbaijan views Turkey as a major ally against Russian and Iranian influence, and as a balance to Armenia’s ties with Russia. Ethnic consciousness among some “Southern Azerbaijanis” in Iran has grown, which Iran has countered through repressive actions. Azerbaijani elites fear Iranian-supported Islamic fundamentalism and question the degree of Iran’s support for an independent Azerbaijan. Azerbaijan is a founding member of GUAM (an acronym of members Georgia, Ukraine, Azerbaijan, and Moldova), which has discussed energy, transport, and security cooperation, partly to counter Russian influence. Azerbaijan is a member of the Black Sea Economic Cooperation group, the Council of Europe (COE), the Economic Cooperation Organization, and the Organization of the Islamic Conference.

Frictions in Azerbaijani-Russian relations include Azerbaijan’s allegations of a Russian “tilt” toward Armenia in NK peace talks. In 1997, Russia admitted that large amounts of Russian weaponry had been quietly transferred to Armenia, and in 2000 and 2005-2007, Russia transferred heavy weaponry from Georgia to Armenia, fueling Azerbaijan’s view that Russia supports Armenia in the NK conflict. Azerbaijani-Russian relations appeared to improve in 2002 when the two states agreed on a Russian lease for the Soviet-era Gabala early warning radar station in Azerbaijan and they reached accord on delineating Caspian Sea borders. Perhaps seeking Russian support for his new rule, Ilkham Aliyev in March 2004 reaffirmed the 1997 Azerbaijani-Russian Friendship Treaty. In late 2006, Russia’s demands for Azerbaijan and Georgia to pay substantially higher gas prices appeared to contribute to the cooling of Azerbaijani-Russian relations.

According to *The Military Balance* (February 2008), Azerbaijani armed forces consist of 66,740 army, air force, air defense, and navy troops. There also are about 5,000 border guards and more than 10,000 Interior (police) Ministry troops. Defense spending has been increasing in recent years, to about \$1 billion in 2007, and a planned \$1.6 billion

in 2008 (about 13% of budget expenditures). Under a 10-year lease agreement, about 1,400-1,500 Russian troops are deployed at Gabala. Azerbaijan reportedly received foreign-made weapons of uncertain origin and armed volunteers from various Islamic nations to assist its early 1990s struggle to retain NK. In 1994, Azerbaijan joined NATO's Partnership for Peace (PFP) and began an Individual Partnership Action Plan (IPAP) in 2005, but President Aliyev has not stated that the country seeks to join NATO. Some Azerbaijani troops have participated in NATO peacekeeping in Kosovo since 1997 and operations in Afghanistan since 2002.

**The NK Conflict.** In 1988, NK petitioned to become part of Armenia, sparking ethnic conflict. In December 1991, an NK referendum (boycotted by local Azerbaijanis) approved NK's independence and a Supreme Soviet was elected, which in January 1992 futilely appealed for world recognition. The conflict over the status of NK resulted in about 30,000 casualties and over one million Azerbaijani and Armenian refugees and displaced persons. The non-governmental International Crisis Group (ICG) estimates that about 13-14% of Azerbaijan's territory, including NK, is controlled by NK Armenian forces (the Central Intelligence Agency estimates about 16%).<sup>1</sup> A ceasefire agreement was signed in July 1994 and the sides pledged to work toward a peace settlement. The "Minsk Group" of concerned member-states of the Organization for Security and Cooperation in Europe (OSCE) facilitates peace talks. The United States, France, and Russia co-chair the Minsk Group.

On November 29, 2007, Undersecretary of State Nicholas Burns, Russian Foreign Minister Sergey Lavrov, and French Foreign Minister Bernard Kouchner presented the Foreign Ministers of Armenia and Azerbaijan with a draft text — *Basic Principles for the Peaceful Settlement of the Nagorno-Karabakh Conflict* — for transmission to their presidents. The Basic Principles reflected agreements the two sides had reached during the Minsk Group talks as well as proposals by the co-chairs on "just and constructive solutions" to the few remaining issues of contention. The officials urged the two sides to accept the *Basic Principles* and work toward a comprehensive peace settlement.<sup>2</sup> Although the text was not released, Azerbaijani Foreign Minister Elmar Mammadyarov reportedly claimed that the principles uphold Azerbaijan's territorial integrity and NK's autonomous status as part of Azerbaijan. Armenia's then-Foreign Minister Oskanyan asserted, on the other hand, that the principles accord with Armenia's insistence on respecting self-determination for NK.

In March 2008, the peace process faced challenges from a ceasefire breakdown along the NK front that reportedly led to some troop casualties and from the passage of a resolution by the U.N. General Assembly that called for Armenia to "immediately and unconditionally" withdraw from "occupied" Azerbaijani territory. Deputy Assistant Secretary of State Matthew Bryza stated that the United States had voted against the resolution because it violated the provisions of the *Basic Principles* and thus harmed the

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<sup>1</sup> ICG. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005. CIA. *The World Factbook*, [<http://www.cia.gov>]. The casualty estimate is from the State Department, *Background Note: Azerbaijan*, May 2008.

<sup>2</sup> U.S. Department of State. Office of the Spokesman. *Media Note: Support for Basic Principles for Peaceful Settlement of the Nagorno-Karabakh Conflict*, November 29, 2007.

peace process. Many observers suggest that progress in the peace talks may occur only after the current electoral cycle concludes in Armenia and Azerbaijan.

## **Political and Economic Developments**

The Azerbaijani constitution, approved by a popular referendum in November 1995, strengthened presidential power and established an 125-member legislature (Milli Mejlis) with a five-year term for deputies. The president appoints and removes cabinet ministers (the Milli Mejlis consents to his choice of prime minister), submits budgetary and other legislation that cannot be amended but only approved or rejected within 56 days, and appoints local officials. The U.S. State Department viewed an August 2002 constitutional referendum as flawed and as doing “very little to advance democratization.”

In October 2003, Ilkham Aliyev handily won a presidential election, beating seven other candidates with about 77% of the vote. Protests alleging a rigged vote resulted in violence, and spurred reported government detentions of more than 700 opposition party “instigators.” Trials reportedly resulted in several dozen prison sentences. In early 2005, the OSCE issued a report that raised concerns about credible allegations of use in the trials of evidence derived through torture. Aliyev in March 2005 pardoned 114 prisoners, including many termed political prisoners by the OSCE.

Changes to the election law were approved by the legislature in June 2005, including some making it easier for people to become candidates for a November 2005 legislative election. Azerbaijan’s Central Electoral Commission (CEC) declared that the ruling Yeni Azerbaijan Party won 54 seats and independents, 40 seats. Opposition party candidates were declared the winners in a handful of constituencies. The U.S. Embassy in Azerbaijan issued a statement urging the government to investigate and rectify some voting irregularities but also praised the election as evidence of democratization progress. The CEC and courts eventually ruled that 625 (12.2%) of precinct vote counts were suspect, and repeat races were held in May 2006 in ten constituencies. The opposition Azadliq electoral bloc refused to field candidates in what it claimed were “rigged” elections. OSCE monitors judged the repeat race as an improvement over the November election but stated that irregularities still occurred.

A presidential election is scheduled to be held on October 15, 2008. In early June 2008, the legislature approved changes to the electoral code, including a reduction of the presidential campaign season from 16 weeks to about 10 weeks. Some of the changes had been recommended by the Venice Commission, an advisory body of the Council of Europe. However, other recommendations of the Venice Commission were not enacted, including those on eliminating the dominance of government representatives on election commissions, clarifying reasons for refusing to register candidates, and reducing the number of signatures necessary for candidate registration. The opposition Azadliq (Freedom) party bloc denounced the reduction in the length of the campaign season as an attempt to limit the exposure of opposition candidates, and announced that it would boycott the election. Other opposition parties have rejected Azadliq’s call for a boycott. Candidate registration has not begun. Many observers suggest that the opposition parties will not be able to agree on a single candidate, so that several leaders of these parties are likely to run. Incumbent President Ilkham Aliyev is widely expected to win re-election despite the recent sharp rise in inflation and reported food shortages.

According to the U.S. State Department's *Country Reports on Human Rights Practices for 2007* (released March 2008), the Azerbaijani government's human rights record remained poor and worsened in some areas in 2007. Torture and beating of persons in police and military custody resulted in four deaths during the year. There were cases of arbitrary arrest and detention, particularly of members of the political opposition. One positive sign was the January 2007 conviction of a high-ranking police official on charges of running a kidnaping, murder, and extortion ring. NGOs maintained that there were dozens of political prisoners. Media freedoms significantly deteriorated during the year. Some observers considered the imprisonment of several journalists to be politically motivated. Most were released by presidential pardon late in the year or their verdicts were overturned. The government intimidated and harassed the media, primarily through defamation suits and court fines for libel. The government restricted freedom of assembly, including by strictly limiting the areas in Baku where rallies were permitted. Some religious groups complained about government harassment.

The collapse of the Soviet Union and the NK conflict in the early 1990s contributed to the decline of Azerbaijan's GDP by over 60% by 1995. The economy began to turn around in 1996-1997. GDP growth in 2006 and 2007 were estimated at more than 30% per year, which contributed to a rise in consumer price inflation to an estimated 16% in 2007 (*World Factbook*). Rising inflation may harm economic growth in 2008. The energy sector accounts for most GDP growth, and the non-oil economy is fragile. A State Oil Fund is supposed to save oil revenues for future use, but the government allegedly has extensively tapped it to alleviate budget deficits. According to the International Monetary Fund, "strong political action" is needed "to counter the vested interests" that discourage competition in several sectors of the economy.<sup>3</sup> Up to one-fourth of the population lives and works abroad because of high levels of unemployment in Azerbaijan.

**Energy.** The U.S. Energy Department in December 2007 reported estimates of 7-13 billion barrels of proven oil reserves, and estimates of 30-48 trillion cubic feet of proven natural gas reserves in Azerbaijan. U.S. companies are shareholders in three international production-sharing consortiums that have been formed to exploit Azerbaijan's Caspian Sea oil and gas fields, including the Azerbaijan International Operating Company or AIOC, led by British Petroleum (developing the Azeri, Chirag, and Gunashli fields). The United States backed the construction of a large (one million barrels per day capacity) oil pipeline from Azerbaijan through Georgia to Turkey's Ceyhan seaport on the Mediterranean (the Baku-Tbilisi-Ceyhan or BTC pipeline) as part of Azerbaijan's economic development, and because this route neither allows Russia to gain undue control over Azerbaijan's resources nor forces Azerbaijan to seek export routes through Iran. Construction began in 2003 and the first tanker was filled in Ceyhan in mid-2006. A gas pipeline from Azerbaijan's offshore Shah Deniz field to Turkey was completed in March 2007. In mid-November 2007, Greece and Turkey inaugurated a gas pipeline connecting the two countries that permits some Azerbaijani gas to flow to an EU member-state. This pipeline is planned to be extended to Italy. Azerbaijan also has pledged to supply some gas for the proposed Nabucco pipeline from Turkey to Austria.

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<sup>3</sup> International Monetary Fund. *Azerbaijan: 2008 Article IV Consultation, Preliminary Conclusions of the IMF Mission*, March 12, 2008.