

Azerbaijan and Armenia: How Energy Connectivity is Critical to Peace

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This article sets out to examine the importance of energy connectivity in shaping the relationship between Azerbaijan and Armenia across the economic, diplomatic and security spheres – from the Soviet period, to the present day, to the future. The article explains how energy and infrastructure connections had a significant influence on the post-Soviet development of the two countries and their ties with one another as well as regional and global players including Russia, Türkiye, the West, and others. The article demonstrates how energy and broader connectivity dynamics have played, and will continue to play, a critical role in the ongoing negotiation process between Azerbaijan and Armenia to normalize relations, one which involves both challenges and opportunities to achieve a diplomatic agreement. The article concludes that the key to a peaceful and sustainable future between Azerbaijan and Armenia is constructive cooperation across the energy, climate, and connectivity spheres, the successful implementation of which will have positive impacts throughout the Caucasus region and beyond.

Keywords: Azerbaijan, Armenia, Energy, Climate, Connectivity, Conflict, Diplomacy, Peace



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Introduction

In the South Caucasus region, as in much of the world, energy and geopolitics are closely intertwined. The location of energy resources such as oil and natural gas has shaped the economic and political development of regional states internally, while the transport infrastructure associated with bringing that energy to neighbouring and global markets has played an important role in shaping their foreign policy strategies. Thus, energy connectivity has impacted the political, economic, and security dynamics of each of the South Caucasus states (Armenia, Azerbaijan, and Georgia), as well as their relations with external players both near the region (i.e. Russia, Türkiye, and Iran) and far beyond it (i.e. the U.S., EU, and China).

The relationship between Azerbaijan and Armenia has been particularly impacted by energy. While the two countries were closely integrated with one another as Soviet republics during the era of the Soviet Union, that connectivity began to break down amid geopolitical tensions and conflicts in the late Soviet and early post-Soviet period, in particular during the First Garabagh War (1988–1994). The war severed connections between the two independent states, prompting Azerbaijan and Armenia to take different paths in their post-Soviet development. Azerbaijan utilized its plentiful energy resources to develop its economy and diversify its foreign policy using a ‘multi-vector’ approach, while Armenia – an oil and natural gas importer with few resources of its own – aligned itself primarily with Russia. This took the countries on two different economic and geopolitical paths, ultimately resulting in Azerbaijan regaining full sovereign control over its territories, which previously were under the occupation of Armenia, in 2020 (September–November) and 2023 (September).

Now, Azerbaijan and Armenia are in the midst of negotiations to re-establish diplomatic relations and normalize bilateral ties within a

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new geopolitical reality, one that has seen the power dynamics within the South Caucasus region shift. The question is, to what degree can energy connectivity play a role in shaping this new reality and its impacts on Azerbaijan, Armenia, and the wider South Caucasus region? The article argues that the prospects for Azerbaijan and Armenia to re-establish energy

and other forms of connectivity with each other and across the region will serve as a key factor in their broader negotiation and normalization process. This pertains to not only the sphere of traditional energy sources like oil and natural gas but also to renewable and green energy sources due to the emerging dynamics of climate change and the global energy transition. Certainly, many challenges still stand in the way, but what is clear is that energy connectivity will play a crucial role in any potential peace between Azerbaijan and Armenia. The article will explore the past, present, and future trajectory of the geopolitical contention between the two countries and how collaboration in the energy and climate spheres can be leveraged by Azerbaijan and Armenia to achieve such a peace.

Energy, Geopolitics, and Post-Soviet Development

Energy has long played an important role in shaping the evolution of the relationship between Azerbaijan and Armenia. During the Soviet era, the Republic of Azerbaijan served as a key oil and natural gas hub for the entire Soviet Union, providing vital energy supplies for Armenia and other neighbouring republics, including Armenia. At that time, all aspects of energy operations – from investment to production to the distribution of energy revenues – were tightly controlled by the central government in Moscow. However, the collapse of the Soviet Union in 1991 and the emergence of Azerbaijan and Armenia as independent states changed the course of this arrangement dramatically, in terms of both the post-Soviet economic development of each country and the evolution of geopolitical dynamics within the South Caucasus region.

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For Armenia, its lack of oil and gas resources was a key factor in its decision to retain close ties with Russia, despite the fact that the latter was no longer in central control of all the republics of the Soviet Union. The war between Armenia and Azerbaijan,¹ which broke out in 1988, just a few years before the collapse of the Soviet Union, and ended with a ceasefire agreement in 1994, severed energy and broader economic

1 Council on Foreign Relations, Nagorno-Karabakh Conflict, March 20, 2024, Available at: <https://www.cfr.org/global-conflict-tracker/conflict/nagorno-karabakh-conflict> (Accessed: September 21, 2024)

ties between the two former Soviet republics once they both gained independence. As such, Armenia had to look elsewhere for imports of oil and natural gas, with the only available options for this landlocked country coming from Russia (via Georgia) to the north and Iran to the south. This had important consequences for Armenia well beyond energy, as it had to retain its alignment with Russia in not only the economic sphere but also in the political and security domains. Armenia kept the Russian military presence on its territory, including the 102nd military base in Gyumri, while Russian guards remained along the country's borders with Azerbaijan, Türkiye, and Iran. In the meantime, Armenia became a member of the new Russian-led blocs of the Commonwealth of Independent States (CIS) and the Collective Security Treaty Organization (CSTO), cementing its position within Russia's political and security alliance networks.

For Azerbaijan, the picture was quite different. Because Azerbaijan had substantial amounts of oil and natural gas resources, it could forge a more independent path in the post-Soviet era. Azerbaijan was able to attract significant investment from Western energy companies to further develop its energy fields, production, and export capabilities, including the construction of the Baku–Tbilisi–Ceyhan (BTC) oil pipeline and Baku–Tbilisi–Erzurum (BTE) natural gas pipeline² to Georgia, Türkiye, and onward to Europe and other global markets. This helped

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facilitate a multi-vector foreign policy for Azerbaijan, which built economic and political ties in numerous directions without fully aligning itself with one bloc over another. Azerbaijan did join the CIS but chose to forego the CSTO, with Russia's troops departing from its territory in the early 1990s, while Azerbaijan developed close security and economic ties with other players, most notably Türkiye.

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2 Abdul, N., "Transportation surge: Baku-Tbilisi-Erzurum pipeline witnesses increase in activity", AzerNews, June 18, 2024, Available at: <https://www.azernews.az/analysis/227398.html> (Accessed: September 21, 2024).

territories, which were previously under Armenia's effective control, with actions that started in September 2020 and concluded in September 2023.³ This came after decades of cross-border attacks and inconclusive diplomatic negotiations, which included mediation efforts from both Russia and Western countries like the U.S. and France under various multilateral formats. Armenia's defeat, in turn, forced the country to re-evaluate its ties with Russia (which, as a CSTO ally, opted not to support Armenia this time, as the military conflict took place beyond the zone of responsibility of this block), while it also set the stage for a change in Armenia's bilateral relationship with Azerbaijan.

Post-Conflict Diplomacy and the Energy Factor

With the territorial dimension of relations between Armenia and Azerbaijan having been settled militarily, and with the external mediation and involvement of both Russia and the West (most notably the U.S. and France) proving insufficient, the leaders of both Armenia and Azerbaijan entered into a period of direct negotiations to normalize diplomatic ties. Such negotiations have included certain arrangements such as border demarcation⁴ as well as fostering long-dormant economic connections,⁵ including in areas such as developing and restoring road, rail, and energy connections between the two countries and throughout the broader Caspian region. While such talks have faced certain political and geopolitical obstacles, they have nevertheless proceeded to make substantial progress towards a formal agreement.

There are several geopolitical factors that have driven these negotiations. One key element is that Russia's influence over Armenia has been substantially weakened over the past year, with the latter seeking supplemental (and potentially alternative) economic and security relationships with the former following Armenia's inability to get

3 Kirby, P., "Azerbaijan halts Karabakh offensive after ceasefire deal with Armenian separatists", BBC News, September 21, 2023, Available at: <https://www.bbc.com/news/world-europe-66863702> (Accessed: September 21, 2024).

4 Radio Free Europe Radio Liberty, Armenia, Azerbaijan Claim Progress In Border Delimitation Talks, July 1, 2024, Available at: <https://www.rferl.org/a/armenia-azerbaijan-delimitation-border-talks/33017536.html> (Accessed: September 22, 2024).

5 Chausovsky, E., "Armenian-Azerbaijan Peace Might Finally Be on the Table", Foreign Policy, November 3, 2023, Available at: <https://foreignpolicy.com/2023/11/03/armenia-azerbaijan-peace-nagorno-karabakh-economic-connectivity/> (Accessed: September 22, 2024).

Russia's support in the [now former] conflict with Azerbaijan.⁶ In large part, this can be explained by Russia's desire to maintain influence over both Armenia and Azerbaijan while balancing its relations between the two countries. No less important has been Russia's focus on the war in Ukraine, which has limited the former's power projection capabilities in the South Caucasus. The Ukrainian conflict has also had a significant impact on Russia's own energy and economic position, with the U.S. and the EU imposing sanctions on Russia and European countries pursuing a strategy of major energy diversification from Russia following the start of the full-scale war with Ukraine in February 2022.

Azerbaijan has been an important part of this diversification strategy, with the EU signing a Memorandum of Understanding (MoU) to increase natural gas imports from Azerbaijan through the Southern Gas Corridor route.⁷ It has also given greater impetus to the Trans-Caspian route,⁸ which connects Azerbaijan to the energy-rich Central Asian states across the Caspian Sea. This is a major transit zone between China and Europe (known as the Middle Corridor), one which has increased in importance due to Russia's war in Ukraine, as well as China's economic rise and efforts to build greater land connections throughout Europe and Eurasia via its Belt and Road Initiative (BRI). The Caspian region serves as a vital node for trade and energy supplies, thus showcasing the importance of opening greater connectivity between Azerbaijan and Armenia and serving as an impetus to resolve some of the lingering political and security challenges between the two states in the post-conflict environment.

Climate and the Energy Transition as an Emerging Dynamic

In addition to geopolitical factors, another influential dynamic impacting Azerbaijan–Armenia relations and negotiations is the growing importance of climate in shaping the international system.

6 Zolyan, M., "Defeated Armenia Looks to a New, Post-Russia Foreign Policy, Carnegie Endowment, November 27, 2023, Available at: <https://carnegieendowment.org/russia-eurasia/politika/2023/11/defeated-armenia-looks-to-a-new-post-russia-foreign-policy?lang=en> (Accessed: September 28, 2024).

7 Ali, T., "Azerbaijan Strengthens Commitment to Double Gas Exports to Europe", Caspian Policy Center, March 8, 2024, Available at: <https://www.caspianpolicy.org/research/regional-south-caucasus/azerbaijan-strengthens-commitment-to-double-gas-exports-to-europe> (Accessed: September 28, 2024).

8 Bokhari, K. and Chausovsky, E., "Trans-Caspian Corridor: Eurasian Connectivity and the United States", New Lines Institute, October 31, 2023, Available at: <https://newlinesinstitute.org/geo-economics/trans-caspian-corridor-eurasian-connectivity-and-the-united-states/> (Accessed: September 29, 2024).

With the global effects of climate change increasing in both frequency and intensity, securing an energy transition from fossil fuels to green energy sources such as solar and wind power has risen on the global agenda. Therefore, while traditional fossil fuels like oil and natural gas have proven highly influential in shaping the geopolitical dynamics between Armenia and Azerbaijan and in the Caspian region overall, it should come as no surprise that climate and the energy transition have acquired a more substantial role in influencing those dynamics.

There was perhaps no greater illustration of this emerging shift than Azerbaijan's hosting of the UN Climate Change Conference (COP29), which was held in its capital city of Baku on November 11–24, 2024. The conference allowed the world to take stock of the current state of the climate transition, with international representatives coordinating efforts to reduce carbon emissions and agreeing on global climate financing for the coming decade.⁹ The conference also served as a key venue for global leaders and policymakers to engage in diplomacy on issues not only related to climate and energy but also well beyond, from conflicts in Ukraine and the Middle East to the strategic competition between the U.S. and China. A key demonstration of this was the COP Truce Appeal,¹⁰ which called for all countries to halt military activities during the month of the conference.

Thus, the intersection of diplomacy, energy, and climate was on full display at COP29, perhaps most of all for the host of the conference itself, Azerbaijan. Despite Azerbaijan's role as an important producer and exporter of fossil fuels such as oil and natural gas, COP29 also highlighted the country's emerging role in renewable energy projects, including solar, wind, and green hydrogen initiatives.

As discussed, Azerbaijan has not only been a key shaper of energy dynamics in the Caspian region, it has also played a pivotal role globally, from facilitating Europe's efforts to diversify away from Russian oil and natural gas to partnering with Gulf states such as the United Arab Emirates and Saudi Arabia on green energy projects.

9 UNFCCC, "COP29 UN Climate Conference Agrees to Triple Finance to Developing Countries, Protecting Lives and Livelihoods", November 24, 2024, Available at: <https://unfccc.int/news/cop29-un-climate-conference-agrees-to-triple-finance-to-developing-countries-protecting-lives-and> (Accessed: September 29, 2024).

10 COP29.az, COP29 Presidency Officially Launches Joint Solemn Appeal for a COP29 Truce, September 29, 2024, Available at: <https://cop29.az/en/media-hub/news/cop29-presidency-officially-launches-joint-solemn-appeal-for-a-cop29-truce> (Accessed September 21, 2024).

Azerbaijan has designated the newly reclaimed territories as a ‘green energy zone’, with a focus on solar, wind, and hydropower.

Indeed, Azerbaijan’s hosting of COP29 could not have happened without Armenia’s endorsement,¹¹ serving as a clear example of the role of climate in the bilateral relationship and how mutually constructive ties and goodwill gestures can lead to tangible results and benefits for both sides.

Of course, the role of climate in shaping Azerbaijan–Armenia relations goes well beyond COP. For example, Azerbaijan has designated the newly reclaimed territories as a ‘green energy zone’,¹² with a focus on solar, wind, and hydropower. Additionally, Armenia’s Prime Minister Nikol Pashinyan has promoted building transport and trade infrastructure between Armenia and Azerbaijan,¹³ calling for such infrastructure to be sustainable through the use of renewable power sources and energy efficiency programmes. While the conventional resources component of energy connectivity is likely to serve a major role in shaping the bilateral relationship for the foreseeable future, a steady balance with climate transition cooperation is likely to enhance overall energy and economic security for all parties involved.

Looking Ahead: Challenges and Opportunities for Peace

Despite all of the progress that has been made in improving relations and connectivity between Azerbaijan and Armenia – as well as the clear role of energy and climate in shaping that progress – several challenges to the full-scale normalization of bilateral ties still remain. One is the issue of domestic politics, as there are individuals and groups within Armenia that have interests in blocking a peace agreement from being signed.¹⁴ This will require careful manoeuvring by the leadership of both countries to ensure that elements opposed

11 Bagirova, N., “Armenia backs Azerbaijan to host COP29 climate conference”, Reuters, December 7, 2023, Available at: <https://www.reuters.com/world/asia-pacific/armenia-backs-azerbaijan-host-cop29-climate-conference-2023-12-07/> (Accessed: September 21, 2024).

12 Caliber. az, Azerbaijan advances talks on creation of green energy zone in liberated territories, October 1, 2024, Available at: <https://caliber.az/en/post/azerbaijan-advances-green-energy-initiatives-in-liberated-territories> (Accessed: September 21, 2024).

13 Aze.media, Pashinyan shows interest in a project for supplying electricity from Azerbaijan to Europe, January 26, 2024, Available at: <https://aze.media/pashinyan-shows-interest-in-a-project-for-supplying-electricity-from-azerbaijan-to-europe/> (Accessed: December 7, 2024).

14 Al Jazeera, Armenian protests demand PM’s head over concessions to Azerbaijan, June 10, 2024, Available at: <https://www.aljazeera.com/news/2024/6/10/armenian-protests-demand-pms-head-over-concessions-to-azerbaijan> (Accessed: December 7, 2024).

to improving bilateral ties do not derail the broader normalization process.

Another challenge is the role played by external players, some of which could seek to disrupt the peace process between Armenia and Azerbaijan. Russia, in particular, could be one such player, given its decreasing influence over Armenia and its opposition to regional connectivity efforts that do not include its own involvement, such as the Trans-Caspian pipeline.¹⁵ While enhancing energy connectivity within the South Caucasus region and between the Caspian and Europe would be beneficial to many states, Russia has made no secret of its opposition to such plans.¹⁶ This will require a delicate balancing act by both Azerbaijan and Armenia to make sure that such opposition – as well as a less-than-enthusiastic approach from Iran – is managed carefully.

Finally, there is the relationship between Armenia and Azerbaijan themselves. Given that these two states had been in conflict for nearly three decades, rebuilding mutual trust at both the political and societal levels will no doubt be difficult. There remain some contentious issues within the negotiation process. A particularly sensitive one is the Declaration of Independence provision within the constitution of Armenia.¹⁷ Armenia has attempted to sign a draft peace agreement by removing non-agreed provisions and settling those at a later date, while Azerbaijan has insisted that all provisions should be agreed beforehand.

Despite these challenges, there are also significant opportunities for Azerbaijan and Armenia to achieve peace. Greater energy connectivity could allow Armenia to enhance its energy security at a time when Russian supplies could become more unpredictable, while also allowing Armenia to break out of its economic isolation and become an integral transit node for the region, much like Georgia has done. Thus, enhancing energy and other forms of connectivity ties would clearly be beneficial for both countries from an economic perspective, which in turn can be translated into political, societal, and even security

15 Annayev, Dz., “Backed into a corner, Putin again opposes Trans-Caspian Gas Pipeline”, Central Asia-News, December 22, 2022, Available at: https://central.asia-news.com/en_GB/articles/cnmi_ca/features/2022/12/22/feature-02 (Accessed: December 7, 2024).

16 Ibid.

17 Mgdesyian, A., “Armenian PM’s new constitution proposal faces uphill battle”, EurasiaNet, February 7, 2024, Available at: <https://eurasianet.org/armenian-pms-new-constitution-proposal-faces-uphill-battle> (Accessed: September 21, 2024).

gains. Given the South Caucasus region's strategic location, such gains would not be limited to the regional states themselves but would have an influence far beyond, showcasing the benefits of constructive and pragmatic connectivity over isolation and conflict.

Conclusion

The central question posed by this article was: to what degree can energy connectivity play a role in shaping the relationship between Azerbaijan and Armenia, and what would be its impact on the broader region? Historically, energy connectivity has been a significant factor in shaping bilateral and regional ties, from the Soviet period to the formative years of independence when such connectivity was disrupted all the way to the present day when it is being reimagined. The centrality of energy connectivity is only likely to grow in the future with shifting geopolitical dynamics as well as the emerging role of climate and the energy transition. This can be seen in the efforts by Armenia and Azerbaijan to include expanding energy connections – for both fossil fuels and renewable energy – in the ongoing diplomatic negotiations between the two countries, as well as Armenia's endorsement for Baku to host the UN Climate Change Conference in November 2024. The peace process between Azerbaijan and Armenia is at a pivotal and important stage, and it is vital for all sides to utilize energy connectivity in a constructive manner to advance such negotiations in order to bring stability and prosperity to both countries, as well as to the South Caucasus region and well beyond.