

Non-alignment and Azerbaijan's Energy Export Policy

Robert M. Cutler*

The question of a relationship between Azerbaijan's role in the Non-Aligned Movement (NAM) and its energy export strategy is examined. The article explains why neorealist and neoliberal theoretical approaches are unsuitable for analysing nascent middle powers such as Azerbaijan in the post-Cold War era. Regime Theory is explored to see if it may offer a better account of Azerbaijani energy policy. To contextualize such an assessment, the article first reviews the NAM's history and its relation to the Group of Seventy-seven (G77). It then discusses the history of Azerbaijan's energy strategy to 2011, when it joined the NAM, and then examines trends in Azerbaijani diplomacy since then. The concept of 'strategic hedging' further unpacks reasons why neorealism and neoliberalism fail to provide a good understanding of Azerbaijani international behaviour. Azerbaijan's international energy policy was set into long-term motion more than a decade before the country joined the NAM. It is directed at economic rather than security goals. Co-operation with Western states and companies does not contradict the pursuit of international prestige and middle-power status that characterize Azerbaijan's participation in the NAM. It is not NAM-based prestige that might affect Azerbaijan's energy policy, but rather energy policy that is put into service to enhance relations with other nonaligned states.

Keywords: Azerbaijan, energy, nonaligned, neorealism, neoliberalism



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Introduction

Azerbaijan is a case study of how the abstract theoretical frameworks developed by Anglo-American international-relations theorists fail to account for the behaviour not only of smaller states today, but even of middle powers such as Azerbaijan and Canada. States like Azerbaijan operate, as Wolfers put it, not ‘in limitless space’, but conditioned by such ‘limitations that external conditions – the distribution of power, geographical location, demography, and economic conditions – place on the choices open to governments in the conduct of foreign relations.’¹

The present article demonstrates the point by examining Azerbaijan’s participation in the Non-aligned Movement (NAM) in relation to its national foreign energy export and development policies. In particular, in the disused theoretical language of Kenneth Waltz’s neorealism, these two modalities of Azerbaijani diplomacy are directed at enhancing the country’s access to two different kinds of goods: NAM participation is targeted at ‘relative gains’ (i.e. security goods, such as prestige), whereas the international energy policy is targeted at ‘absolute gains’ (i.e. economic goods, such as state revenue). The neorealists and neoliberals sought, together, to dominate the erstwhile discourse in international relations theory by synthesizing their perspectives through rational-choice methodology. Contrary to neorealist approaches, however, even – or especially – when complemented by neoliberal considerations, these two categories of ‘gains’ (or ‘goods’) are, in practice, incommensurable.²

The present article also seeks to assess Regime Theory as an explanatory framework for Azerbaijani energy policy behaviour. An international regime consists of ‘implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations.’³ Regimes are ‘specialized arrangements that pertain

1 Wolfers, A. “The Determinants of Foreign Policy,” in Wolfers, *Discord and Collaboration: Essays on International Politics* (Baltimore, Md.: Johns Hopkins Press, 1962), p. 45.

2 Cutler, R.M., “Bringing the National Interest Back In: Lessons for Neorealism from the Former Soviet Area,” *Cosmos: The Hellenic Yearbook of International Relations*, Vol. 1, 1995, pp. 64–66.

3 Krasner, S.D. “Structural Causes and Regime Consequences: Regimes as Intervening Variables,” *International Organization* Vol. 36, No. 2, Spring, 1982, p. 186.

to well-defined activities, resources, or geographical areas.⁴ The approach here synthesizes regime theory with the newer concept of strategic hedging in foreign policy analysis, as applied to Azerbaijan in particular, in order to explain the continuities and changes in the country's foreign and economic policy between the first and second decades of the 21st century.

History of the NAM and Azerbaijan's participation in it

The Non-Aligned Movement (NAM) has greatly changed since its foundation in 1961 on the basis of the 1955 Bandung Conference. Originally intended as a Third World movement apart from the two blocs of the Cold War system, it turned into the political arm of the global South in North–South dialogue. The South's economic arm was the Group of Seventy-seven (G77), established in 1964 in the context of the United Nations Conference on Trade and Development (UNCTAD), which served as an informal secretariat for the global South and was the principal driver behind the push for the New International Economic Order (NIEO). This foundered in the 1980s, after a parallel initiative for a New World Information and Communication Order (NWICO) failed due to objections against its driving principle that states should govern information flows. The NAM was also significantly weakened after Cuba assumed its leadership in 1979, as Cuba's president Fidel Castro sought to move it away from its original vocation and to align it explicitly with the Soviet Union. This was part of the general Soviet diplomatic strategy whereby the socialist countries were held out as the 'natural allies' of the developing countries against 'international imperialism.'⁵

4 Oran R. Young, *International Cooperation: Building Regimes for Natural Resources and the Environment* (Ithaca, N.Y.: Cornell University Press, 1989), p. 13.

5 The "natural allies" doctrine was part of a general Soviet-led offensive in international law in support of the South's demand against the global North (from which the USSR excluded itself) in multilateral negotiations over global economic issues. The Soviets chose the Nonaligned Movement as the instrument to propagate this doctrine, because at the time it had fewer members than the G77, which had grown to include over 120 developing countries. For details, see: Cutler, R.M. "The Soviet Union and World Order," in *Global Peace and Security: Trends and Challenges*, ed. Wolfram F. Hanrieder (Boulder, Colo.: Westview Press, 1987), pp. 88–89.

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By the time Azerbaijan joined the NAM in 2011, the organization had been struggling for two decades to renovate its role as a middle way between two Cold War blocs that no longer existed. It had settled on emphasizing norms of multilateralism, equality, and mutual non-aggression. By the time Azerbaijan assumed the NAM's presidency in 2019, the organization had grown to 120 members, significantly complicating co-ordination on specific policy issues that might touch its members' national interests. Most of the NAM's programmes and declarations since the beginning of the 21st century have been broad statements invoking United Nations documents and principles, and those of other general-purpose international organizations (whether intergovernmental or not) having very large numbers of members, over a large universe of issues and issue areas.

Thus, the Final Document of the NAM's 18th Summit of Heads of State and Government, held in Baku in October 2019, ran to over 150,000 words. Of these, less than 0.1 percent were devoted specifically to energy questions. The shorter Baku Declaration comprised two pages of considerations and five pages of desiderata; it mentioned energy only twice, in passing and only in the most general terms.⁶ To examine how the NAM may influence Azerbaijan's approach to energy matters, or vice versa, it is therefore necessary to consider the country's energy policy since it joined the organization in 2011.

Azerbaijan's Energy Policy up until 2011

It is a commonplace that Azerbaijan is an eastern country when viewed from the West and a western country when viewed from the East. It was perceived as Western-oriented during the 1990s and 2000s, when large foreign direct investment (FDI) arrived in the country for the development of offshore hydrocarbon resources that would, in turn, be exported westward. Azerbaijan also worked closely with such international financial institutions

⁶ Namazerbaijan.org, *Final Document*, 25–26 October 2019, Available at: <https://www.namazerbaijan.org/pdf/BFOD.pdf> (accessed 19 July 2020); *Baku Declaration*, 25–26 October 2019, Available at: <https://www.namazerbaijan.org/pdf/BD.pdf>, (accessed 19 July 2020).

as the World Bank and the International Monetary Fund (IMF) to convert her inherited Soviet structures into institutions that would sustain a capitalist market system. This included foresight planning for the development of human resources and the eventual social effects of diversifying the domestic economy beyond the energy sector.

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That original push was possible thanks to many factors, but indispensable was the keen and constant attention of US foreign policy to the Caspian region in general, and to the South Caucasus in particular, through the administrations of President Bill Clinton in the 1990s and President George W. Bush in the 2000s. In September 1994, Azerbaijan signed the ‘Contract of the Century’ with 11 international oil companies including Azerbaijan’s SOCAR and, principally, British Petroleum, Amoco, Lukoil, Pennzoil, Unocal, and Norway’s Statoil. The agreement called for investing US\$7.4 billion over 30 years in the Azeri, Chirag, and Guneshli offshore oil fields, which were especially valued for the lightness of their crude.

With the signature of the Istanbul Protocol at the November 1999 summit of the Organization for Security and Cooperation in Europe (OSCE), the problem of defining a plan for exporting the oil to Western markets was solved. The plan was to construct the Baku–Tbilisi–Ceyhan (BTC) oil export pipeline. The Istanbul Protocol memorialized the intention to negotiate no fewer than four agreements: a cost guarantee accord, an accord between investors and the transit states, the accord for the pipeline itself, and the construction contract. Not least important for investors was the adoption of such commitments into national legislation in all three participating countries: Azerbaijan, Georgia, and Turkey. It is often forgotten what a spectacular feat of political, financial, and technological and engineering achievement the entire process, through to construction and operation, represents.

To create business confidence, Azerbaijan (as well as Georgia and Turkey) incorporated the 1999 Istanbul OSCE agreements into national law through legislative acts. In the case of Azerbaijan, these were adopted as international treaties, effectively placing them on the same authoritative footing as the country’s constitution. Azerbaijan’s meetings with the IMF under

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the so-called Article IV consultations (whereby IMF economists visit the country to evaluate economic and financial developments and to discuss the relevant policies with government and central bank officials) began only after the BTC agreements were signed and the mentioned national legislation had been approved by parliament. The IMF is the international financial institution most directly involved in the mesoeconomic issue areas. These events set the course that Azerbaijani energy development policy has mainly followed since the 1990s.

In 1995, in reference to the newly independent states of Eurasia, including Azerbaijan, I identified the mesoeconomic level of analysis as ‘the ensemble of national legal regimes and the national policies complementing them ... where national legal regimes about foreign trade reform, national systems of banking and insurance, and accounting, inheritance, and property law are the interface between national and international legal regimes in the economic field.’⁷ This definition links the mesoeconomic level to microeconomic policy via such issue-areas as the law of privatization of state enterprises (including contract law) and the general price-formation mechanism. It links the mesoeconomic level to the macroeconomic level via the issue-areas of foreign banking, trade, and insurance. Further, I pointed out the three main issues that link the internal and external components that constrain the national solutions that may be found to mesoeconomic-level problems. These are: (1) the coordination of foreign direct investment, including the laws that govern it, (2) the role of international institutions in macroeconomic stabilization, and (3) currency and trade co-operation. These are central because the national systems of law framing mesoeconomic activity must not conflict with dominant international political norms if national policies in the respective areas are to be effective. Azerbaijan would have been unable to develop its energy resources without these regimes (systems of law and norms) well in place.

Most of the 1990s were a period of political and economic instability for the new republic. In addition to the Nagorno-Karabakh War, which ended only in 1994, the decade saw the

⁷ Cutler, “Bringing the National Interest Back In,” *op.cit.*, p.68.

domestic political mess in the early years of the 1990s which also targeted Heydar Aliyev, the re-election of whom for a second term in 1998 was the domestic prerequisite for institutionalizing the BTC and its agreements into national law. For Azerbaijan, as a newly independent state in the 1990s, the regime-based approach explains its foreign policy choices much better than either neorealism or neoliberalism. The BTC oil export pipeline entered into service in 2006, the same year as the South Caucasus Pipeline (SCP) for natural gas exports. The unexpected discovery of gas rather than oil in the original Shah Deniz explorations opened new perspectives for Azerbaijan's development of its offshore energy resources and, indeed, changed the strategic dynamic of Caspian-region geo-economics into the future. There was enough gas in the Shah Deniz field alone to justify what was first called the Baku–Tbilisi–Erzurum gas pipeline, which, after further development, became referred to, and still is today, as the SCP.

Azerbaijan's energy policy during the 2010s and its geopolitics

Further offshore fields have been discovered and explored over the last 10 years, including Absheron, Babek, Nakhchivan, Umid, Shafag-Asiman, and Zafar-Mashal, either with the cooperation of foreign firms such as France's Total or the UK's BP, or, where possible, independently by Azerbaijan itself. However, these have proven more difficult to develop because international oil and gas companies have not judged investments there to be cost-effective, given their own other possibilities for development in the global perspective. Nevertheless, Umid has started producing small amounts in the last few years, mainly for domestic consumption.

During the 2010s, Azerbaijani energy policy continued along the lines set in the late 1990s and the 2000s. Shah Deniz's stage I expanded into Shah Deniz II, and the Southern Gas Corridor (SGC) was developed. However, further US political support for SGC projects was not to the same extent as it had demonstrated earlier, though the following Washington administrations endorsed the financing of the SGC's components. The US companies' engagement in the Caspian region also decelerated during Barack Obama's years in office, as domestic American oil

and gas production ramped up thanks to technological advances in the development of unconventional oil and gas. In contrast to this, the EU's willingness to soften its natural gas dependence on Russia through the diversification of energy sources and routes maintained the relevance of the SGC together with the Union's perspective on the further development of Azerbaijan's resources.

The focus and intensity of American attention became attenuated during the two administrations of President Barack Obama, from 2009 through to 2016. American attention to Azerbaijan also faded, in part, because of the ethnic Armenian diaspora in California, which remains very important in Democratic Party politics in the state, which is itself so important to the party on a national level. This influential constituency also played a role in decreasing American solicitude toward Azerbaijan. The most public illustration of this influence was the Administration's inability to get the Senate to confirm Matthew Bryza as Ambassador in 2011–2012. The USA's promotion of the failed Turkish–Armenian rapprochement at around the same time is another example.

It is necessary to mention that the 2008 Russian–Georgian war marked a definitive turning point in Azerbaijan's foreign policy. Western diplomacy in general remained for some time in a state of shock regarding the South Caucasus after the Russian invasion and occupation of Abkhazia and South Ossetia in Georgia in August 2008. This decreased US attention, together with the January 2009 change of administration to President Barack Obama, provided Moscow with an opportunity to pursue its 'milieu goals' more overtly and consistently, especially given Washington's negligence of the region under the Obama Administration.⁸ The American and European failure to respond with anything more than words to Russia's occupation of Georgian territory changed the Azerbaijani public's view of the West. It also 'shook Azerbaijan's political establishment and altered their perception of Russia.'⁹ Up until then, Baku had 'maintained good relations with Russia while slowly and incrementally moving closer to the West', thereby slowly neutralizing Russia's

⁸ Wolfers, A. "The Goals of Foreign Policy," in Wolfers, *Discord and Collaboration*, pp. 73–76.

⁹ *Ibid.*, p. 277.

influence by strengthening Azerbaijan's autonomy with the help of FDI and international interest.¹⁰

An important, related development was the decline in US military aid and financial assistance to Azerbaijan beginning in 2009. At the same time, Russia upgraded its presence in the Caspian Sea and began increasing its arms sales to Azerbaijan. Azerbaijan's 2013 agreement to purchase \$4 billion in arms from Russia turned the latter into the former's predominant arms supplier. This decision was associated with a lack of relevant flexibility of military procurement from Western countries.¹¹ Since Russia is also Armenia's principal arms supplier, this development has increased Moscow's ability to play on the balance in the Armenia–Azerbaijan Nagorno-Karabakh conflict.

Conceptualizing change in Azerbaijan's foreign policy

The concept of strategic hedging explains better than either neorealism or neoliberalism, or the two of them together, the evolution of Azerbaijan's foreign economic, security, and military policy over the last 10–15 years, particularly towards Russia, but also more generally.¹² Strategic hedging is a post-Cold War, relatively new theoretical concept designating the combination of co-operative and confrontational elements in a given state's foreign policy. International relations theories current during the Cold War, such as neorealism and neoliberalism, were dominated by system-level approaches and tended to minimize the relative autonomy of individual state actors, even middle powers such as Azerbaijan and Canada.

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The concept of strategic hedging takes into account such post-Cold War changes as the disappearance of structural

10 Valiyev, A. "Victim of a 'War of Ideologies': Azerbaijan after the Russia–Georgia War," *Demokratizatsiya*, Vol. 17, No. 3, August 2009, p. 271.

11 For details, see: Bashirov, G. "Energy, Security and Democracy: The Shifting US Policy in Azerbaijan," *Cambridge Review of International Affairs*, Vol. 32, No. 6, July 2019, pp. 771–98.

12 Valiyev, A. and Mamishova, N. "Azerbaijan's Foreign policy towards Russia since Independence: Compromise Achieved," *Southeast European and Black Sea Studies*, Vol. 19, No. 2, January 2019, pp. 269–91.

bipolarity and the multiplication of issues and issue-areas on the international agenda.¹³ It is therefore more conducive to explaining foreign-policy evolution in general, and Azerbaijan's in particular. Nevertheless, part of the motive for Azerbaijan's strategic hedging is also to position itself as a 'middle power'. Its participation in and presidency of the NAM fits neatly into this profile. Jafarova suggests that Azerbaijan has used the opportunity to become a 'norm entrepreneur.' Indeed, she points out that one feature of being a middle power is being able to reduce tension and limit conflict among the great powers. She mentions Azerbaijan's hosting of a number of meetings between leading Russian and NATO military figures.¹⁴ This role clearly not only enhances the country's prestige, but also fits directly into a portfolio of instruments for strategic hedging.

Conclusion

In the 1990s, indeed in the early 2000s, Azerbaijan's national interest was still being formed and defined, as the state was also in the process of consolidating its sovereignty. The legislation of the domestic legal regimes mentioned above, together with ensuring their interface with international legal regimes, was crucial to Azerbaijan's state consolidation and its integration into the new, post-Cold War system of international relations. The signature of the BTC agreements in 1999 is what made that possible.

There is no contradiction here with Azerbaijan's membership in the NAM. Baku co-operates with the IMF, the World Bank, and other international institutions that are popularly conceived to be Western-dominated. The great majority of the other NAM members also co-operate with these institutions. Some of them are also players in the international energy markets, even co-operating with the same Western companies. Azerbaijan's

¹³ That characteristic reflected the fact that the dominant international relations theorists came from systemically dominant state actors, such as the United States. The sociology of the sub-discipline of international relations has changed with the global democratization of access to intellectual resources (and necessary financial resources for theoretical and applied work) following the end of the Cold War.

¹⁴ Jafarova, E., "Is Azerbaijan a 'Middle Power'?" *Modern Diplomacy*, 16 May 2020, Available at: <https://moderndiplomacy.eu/2020/05/16/is-azerbaijan-a-middle-power/> (accessed 19 July 2020).

international energy policy was set into long-term motion more than a decade before the country joined the NAM. Investment decisions, even in the last 10 years, have been path-dependent on the country's previous foreign economic policy. This means that policy decisions taken earlier condition and constrain the possibilities for policy decisions to be taken later in time.

Even though more players in the global oil and gas sector have access to a wider range of technologies than was the case 30 years ago, it is no surprise, indeed it is to be expected, that Azerbaijan should continue to seek to co-operate with the leading companies, which happen to be mainly Western. These were, moreover, the only ones that had the technological capabilities to undertake the exploration and development of Azerbaijan's offshore energy resources during the first two decades of the country's post-Soviet independence. Azerbaijan's need to build national regimes of domestic law that were able to interface with international economic norms and practices is the first element making regime-theoretic approaches more appropriate for analysis here than either neorealism or neoliberalism, or their methodological marriage consecrated by Rational Choice theory. The second element making them more appropriate is the evolution of the international system away from a bipolar structure. That evolution gives middle powers greater diplomatic freedom, including the freedom to engage in strategic hedging behaviour. These middle powers, such as Azerbaijan, thus become subjects as well as objects of international relations, and therefore able to chart their own diplomatic and political courses, particularly in their own regional international sub-systems.