

4. The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan

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The BTC pipeline's total length throughout the three countries will be 1,760 km, of which Azerbaijan will host 445 km. The pipeline will export up to 1 million barrels of crude Azerbaijani (and subject to the future negotiations, possibly Kazakhstani and Russian) oil per day from the Azeri, Chirag, and Guneshli fields in the Caspian sea to world markets. It will originate at the existing Sangachal terminal near Baku and will terminate at a new storage and export terminal, the BTC Marine Terminal. The first tanker with Caspian oil leaving the port of Ceyhan will be loaded in the second half of 2005.

The pipeline will occupy a corridor eight meters wide, and will be buried at a depth of no less than one meter. Although originally priced at \$2.9 billion, BTC will cost more than \$3.4 billion. The Azerbaijani section will be 42 inches wide in diameter with a durability of 40 years. In Azerbaijan, BTC passes 350 road and rail and 700 water crossings. There will be two pumping stations in the Azerbaijani part of the pipeline and one metering station.

BTC's overall meaning for Azerbaijan

BTC has been largely regarded in Azerbaijan as a tool to decrease its dependence on Russia in terms of export routes for oil and gas, as well as to build new economic, political and security links with Turkey, Azerbaijan's ally, and subsequently with Western Europe. The Azerbaijani political leadership has treated BTC more as a geopolitical asset as opposed to a mere economic benefit. The fact that Azerbaijan's leadership has preferred this western route over Russian or Iranian routes shows the limited nature of Baku's trust in its northern and southern neighbors and its desire to secure the country's independence and sovereignty with the help of Turkey and the West. It is widely believed that should BTC be completed, Azerbaijan will gradually integrate and merge with Turkey and Western Europe in the economic, energy and security fields. At the same time, BTC has been instrumental in developing and strengthening the so-called "East-West" energy, transport and telecommunications corridor. As this corridor would eventually

bypass Armenia and deepen its political and economic isolation, BTC has also served as a negotiation tool for Baku in the Nagorno-Karabakh conflict. Finally, BTC was and remains regarded by Azerbaijanis as a tool for economic prosperity. This approach is more pronounced among ordinary Azerbaijanis than among the political elite. Average citizens of the country have been desperately waiting for the completion of the pipeline as they have been promised a long-awaited and much-desired economic boom and a concomitant reduction in the poverty rate.

BTC's Economic Impact

There are currently close to 15,000 people employed with foreign companies in oil and gas projects in Azerbaijan. The pipeline's construction has created 10,000 short-term jobs (2,300 of which in Azerbaijan) and will require 1,000 long-term employees (250 of which in Azerbaijan) throughout its expected 40 years of operations. BTC has also led to various community and environment investment programs conducted by the shareholders of BTC. Specifically, a total of \$8 million will be invested into community development programs and \$2 million into environmental programs. Moreover, \$150 million in direct in-country investment will reach Azerbaijan. Many local companies will also benefit from BTC due to the project's policy to purchase local goods and services if they meet international standards.

It is estimated that following the construction of BTC and the export of Azerbaijani oil to Western markets, the total oil revenues of Azerbaijan will reach close to \$140 billion dollars at world oil prices of \$45 per barrel – though it should be noted that BP projects \$100 billion at prices of \$30 per barrel. The Shah Deniz gas field, discovered in 1999 and containing an estimated 400 billion cubic meters (bcm) of gas, is scheduled to yield another \$20-30 billion when the South Caucasus gas Pipeline (SCP) will be completed and will export Azerbaijani gas to the Turkish city of Erzurum, and onwards to Western markets. As the current budget of the country barely reaches \$2 billion, these numbers are of obvious significance to Azerbaijan. Thus, if effectively managed, the oil extraction and pipeline projects, are expected to bring lasting political, economic, social and environmental benefits to the people of Azerbaijan, and in addition, to those of Georgia and Turkey.

Yet, there are also reasons for caution. Local economists believe that the huge amount of oil and gas revenues will generate several negative consequences for the local economy. A first and obvious point is the very real danger that Azerbaijan will develop an economy over-reliant on energy, and suffer from the so-called 'Dutch Disease'. Since independence, the overwhelming majority of foreign investment in Azerbaijan has been focused on the oil and gas sector. If, as projected, a very significant part of the state's finances is dependent on oil and gas sales, the price fluctuations of these commodities will affect Azerbaijan's economy and stability significantly. In this context, the creation of the State Oil Fund,

examined in detail below, clearly is a crucial element in avoiding the most direct effects of the Dutch Disease. Yet this does not prevent Azerbaijan from facing another problem: when oil sales begin to plummet in a few decades, the country's economic future will be dependent on to what extent the state has spearheaded a diversification of the economy that can form a basis of a strong economy even in the post-oil era. So far, the government shows every sign of realizing this necessity – but still needs to move from words to action.

Secondly, and related to this, is the possibility of a psychological feeling of over-confidence and security in the future developing, which in turn could lead to inefficiency and a slow pace of reforms. In short, economists warn that easy access to cash will make the government reluctant to conduct long-term economic reforms.

At the same time, it is expected that the national currency, the *manat*, will get ever stronger in relation to the U.S. Dollar, and that this could lead to decreased domestic production and in turn hurt the local economy. This tendency, alongside with inflation, has already been observable in Azerbaijan since 2004 and is likely to continue in the future. The stronger *manat* could also slow down the real competitiveness of the local economy and result in higher unemployment.

The peak of BTC's operation and of the general level of oil and gas output will take place between 2010 –2015, after which oil and gas production will be slowly reducing, effectively coming to an end in 2030, if no other fields are discovered. Economists believe that the slowly diminishing pace of oil production could also result in a slow down or even reduction of the GDP growth rate. This would also negatively affect the local economy, because the government would have to dip into the accumulated oil fund to sustain the level of spending which existed during peak production years.

Should the accumulated oil revenues not be wisely invested into the diversification of the local economy and should inflation not be kept at minimal levels, these pessimistic predictions could become true.

BTC's impact for the communities

BTC is passing through more than a dozen administrative regions in Azerbaijan. Most of these are rural areas with agriculture and livestock breeding as the primary economic sectors. During the course of the pipeline's construction, many communities in these rural areas have been affected by the pipeline. Most were affected in a positive way, but there have been also reports that the construction works have negatively affected the human and property rights of some citizens.

Among the positive impacts of the pipeline, infrastructure and community development are the most often cited. BTC and the SCP, which remains under

construction, are jointly investing \$8 million in the Community Investment Program (CIP) in Azerbaijan. This program's goal is to promote sustainable economic and social development in the country with projects in the fields mainly of health awareness, social infrastructure and agricultural development, and to promote income generation opportunities. For instance, in the village of Sitalchay, people complained about the lack of water. British Petroleum, the main operator of BTC, then built a water pipeline to the village. Other cases involved the rehabilitation of local schools, roads, hospitals, electricity and sewage lines, water canals and irrigation pipes, construction of kindergartens and playgrounds, development of sustainable communication and energy lines, creation of economic opportunities through both training and technical assistance. One can cite thousands of such kind of cases. The implementing partners for these projects are the international NGOs "Save the Children", "The International Rescue Committee", "The International Medical Corps", "The Foundation for International Community Assistance" together with their local NGO partners. All the partnering organizations have been selected by means of a Request for Proposals with special attention to relevant skills and experience.

Besides these programs, in order to make sure that BTC has direct, tangible, immediate and sustainable impact on the community, BTC has implemented various community development and mobilization projects. These projects have been aimed at increasing the sense of initiative, activity, community belonging, ownership and organization among the residents of the communities where the pipeline passes. This, in turn, would help not only to empower the communities for the long-term period, but also to involve the communities into the protection of the pipeline, as they would feel responsibility and ownership of the pipeline. Many vocational education opportunities and micro-enterprise initiatives were also created.

In order to further increase the positive impact of the BTC pipeline on community life, BP has planned to launch a new Regional Development Initiative (RDI). This initiative will support the economic development of the BTC host countries but will also aim at targeting those areas and communities where BTC does not physically pass (beyond the 4 km corridor.) The European Bank for Reconstruction and Development (EBRD) and BP have each earmarked up to \$25 million in grants and loans for this initiative with other members of the BTC consortium expected to join with further funding up to \$100 million. The initiative will be launched in mid-2005.

Alongside with the positive impacts of BTC on the lives of communities, local and international human rights organizations have drawn attention to the problems and conflicts in the construction process. Primarily, this related to the acquisition of land and employment policies. The construction of BTC takes up a 32 meter wide

land corridor for temporary usage with further plans to return the land for agriculture and grazing. Although BTC does not result in the physical resettlement of people, the project has a temporary impact on land owners and users. BTC Co. has developed a “Resettlement Action Plan” to compensate to the local people for the use of land for the construction of the pipeline and has planned to distribute \$133 million to landowners in all three countries. Yet, the process of monetary compensation did not always go smoothly. In some areas, local authorities have illegally purchased or forced people to give up their lands in order to avoid paying compensation. The most common practices in these cases have been the transfer of private lands into the hands of municipal councils, which would then end up in the hands of the local mayor. In other cases, the land acquisition process has taken place too quickly, leaving people unaware of their rights and unprotected from the harassment of local authorities.

Furthermore, local residents, employed at the construction of BTC have complained of being mistreated in terms of labor rights and medical treatment. According to the legal and regulatory frameworks that govern BTC, governments are primarily responsible for the maintenance of law and order, and for the respect for human rights and security. Yet energy companies are also tasked to make sure that the human rights of local residents are protected. BTC Co. has taken an obligation to protect the rights of the employees and contractors according to both national legislation and the international conventions that Azerbaijan, Georgia and Turkey are party to.¹ BTC Co. and the three host countries reiterated their commitment to the respect of human rights in a joint statement signed on May 16, 2003 in which they highlighted their intention to make BTC a model project in terms of respect for human rights.

Despite these commitments, the local media, NGOs and human rights organizations have regularly reported on cases of mistreatment at work. These cases included denial of medical compensation for employees hurt during working hours, prevention of attempts to organize labor unions, and discrimination.² Although these cases did not prevent or prolong the construction of the pipeline, they have affected the image of multinational oil companies among the general public. Most importantly, the construction of BTC has become a process in which many local residents and employees of the project do not feel their voices are heard. The feeling of powerlessness and lack of voice dominates the local communities

¹ This applies to Universal Declaration on Human Rights, the UN Convention Against Torture and other in Cruel Human or Degrading Treatment or Punishment, the European Convention for the Protection of Human Rights and Fundamental Freedoms, International Convention on the Elimination of All Forms of Racial Discrimination, the UN Basic Principles on the use of firearms by Law Enforcement Officials, the UN Code of Conduct for Law Enforcement Officials and many others.

² Eg. “Foreign Oil Companies Accused of Rights Violations”, *Baku Today*, 30 April 2005; Kathleen Williams, “BTC Project Plagued by Human Rights Abuse Claims”, *Trade & Forfeiting Review*, 22 April 2005.

and people involved in the project for the most part. Many residents and employees of the project believe that the local government and multinational companies are too powerful and distanced from the local communities to hear their concerns. BP, it should be noted, has regularly disciplined and even fired BTC staff who violated the code of conduct. In spite of the company's best efforts, however, it seems that these problems have not been entirely averted. This is likely due in great part to the time pressure under which the project has been, as well as the complex trilateral interaction between the local authorities, citizens, and the international companies.

BTC's Environmental Impact

While the environmental aspects are covered in detail elsewhere in this volume, it should be noted that under the Environmental Investment Program (EIP), BTC Co. is investing \$2.7 million in Azerbaijan for environmental projects until the end of 2006. Some of the projects under this program involve the habitat improvement scheme for the semi-desert Gobustan area, a forest management project to conserve and improve areas of the Tugai forest, but several more projects are expected to be announced later.

The construction of BTC has not caused as much environmental concerns in Azerbaijan as it has in Georgia, where it passes the Borjomi Gorge mineral water spring. In Azerbaijan, some local NGOs have raised concerns about the passage of BTC through the Kur river as well as the Gobustan area, a national historical park. Yet, the government of Azerbaijan, specifically the State Oil Company of Azerbaijan and the Ministry of Ecology and Natural Resources, have downplayed these concerns. BTC constructors have taken special, internationally recognized technological measures at the river and fault crossings to ensure the pipeline's and the surrounding areas' safety. The BTC project meets the environmental requirements of international institutions, including the World Bank.

BTC's Impact on Democracy and Governance

As paradoxical as it is, the overwhelming majority of countries in the world where the oil and gas industry dominates the local economy have experienced problems with democracy, human rights, governance and corruption. Norway stands out as the exception that confirms the rule. It remains to be seen whether the years after the completion of BTC and the export of "major oil" from Baku to Western markets, Azerbaijan will emulate the Norwegian model and significantly improve governance in the country.

Elections in Azerbaijan continue to remain the most problematic aspect of democratic development. Almost all elections since the re-establishment of the country's independence, be it presidential, parliamentary or municipal, have been

challenged and resulted in deep political polarization and animosity between political actors in the country. The availability of rich energy resources and thus large amounts of cash adds fuel to the competition between the political forces in the country, simply by raising the stakes for political actors. The ruling party, the Yeni Azerbaijan Party, established by late President Heydar Aliyev, came to power in 1993 and has since then established a tight grip on governance. Azerbaijan continues to be a highly centralized state with only limited authority given to lower levels of government. The state of war in which Azerbaijan finds itself has been an important element in sustaining this centralization.

Corruption and lack of transparency is another deep problem in Azerbaijan. Gaining necessary monetary resources from the oil and gas sectors, there is a risk that the Azerbaijani government and bureaucracy would become increasingly distanced from ordinary citizens. That said, the Azerbaijani government has taken a number of important steps to work toward transparency, especially in the energy sector, of which the oil fund is only the most apparent. The government has also been supportive of new international instruments to fight corruption.

Poverty and unemployment remains rampant throughout the country. According to official statistics, 42% of the population remains below the poverty line, and local economists claim that over a million Azerbaijanis have emigrated abroad in search of jobs and economic opportunities. Lack of democratic development and inefficient governance is also felt in other sectors of daily life, such as education, agriculture, health services and science.

At this moment, there are two ways to look at the impact of the BTC on the political developments in the country: an optimistic and pessimistic one. The supporters of the former approach claim that the close proximity of Azerbaijan to Europe and the connection of Azerbaijan into the European economy through BTC will eventually result in the full political and economic integration of the country into European institutions and values. This, in turn, will lead to the improvements in the sphere of democracy, governance, transparency and human rights.

Indeed, some facts of the recent years support this thought. In 2001, Azerbaijan joined the Council of Europe, which has been a crucial factor behind reforms in the country, such as the passage of the law on the fight against corruption, the establishment of a public TV station, the release of political prisoners, and amendments to the constitution, including opening the way for ordinary citizens to appeal to the Constitutional Court. Some of these changes are still new to Azerbaijani society and lack proper mechanisms of implementation, thus it is not clear what the full positive effects of these reforms will be. Yet, the fact that these changes are being made provides hope for a positive development in the field of democracy and good governance. The Council of Europe continues to press the

Azerbaijani government on other issues such as the improvement of the electoral law, transfer of power and authority from local executive bodies to the municipalities, and the establishment of a strong civil society. Other international organizations also work in this front. With the help of the UN, the Azerbaijani government since 2003 developed and started to implement the state program on “poverty reduction and economic opportunities.” The IMF has been instrumental in working with the Azerbaijani government to establish an annual reporting system of the executive branch of the government in the National Parliament as well as transferring the primary decision-making role over the State Oil Fund from the President into the hands of the Parliament. Other foreign and international organizations, such as USAID, the World Bank, the Organization for Security and Cooperation in Europe (OSCE), the Open Society Institute and many others, continue their activities to develop and empower the local NGO and media sectors so that they will play a more active role in the decision-making and governance process.

Yet, none of these improvements and reforms in the political sector are directly driven from BTC or other oil and gas projects. In fact, oppositional advocates argue that ongoing oil and gas projects seem to be having a negative impact on the development of democracy and human rights in the country. After the presidential elections in 2003, many opposition figures and NGO activists accused foreign countries and multinational oil companies of closing their eyes to electoral fraud and supporting the authoritarian regime in the name of stability and security. Foreign powers and powerful energy companies are primarily interested in preserving long-term stability in the country in order to ensure the smooth continuation of the oil and gas projects. This implies that energy companies work with the government of the country, which they clearly have no influence in determining. Indeed, during the past decade the oil companies operating in Azerbaijan have developed strong partnership ties with the Azerbaijani government and have little incentives to finance opposition parties or civil society groups in order not to risk their contracts and business ties with the government.

In the final analysis, there is no substantiation for the assertion that oil has had a negative effect on the political development of Azerbaijan. Neither can it be stated that its influence has been positive on the political system. What is clear is that oil has been instrumental in helping Azerbaijan build a functioning state with governmental institutions that work considerably better than states with comparable socio-economic situations, such as Georgia and Kyrgyzstan. As argue among other by Francis Fukuyama in his recent book *State-Building*, the building of functioning state institutions is a sine qua non for long-term political development and durable democracy. In this sense, time will determine what the long-term effect of oil on Azerbaijan has been.

On another note, the cooling of official Washington's attitude to Azerbaijan since the 2003 elections tends to disprove the thesis that oil takes precedence over democracy. Indeed, the completion of the BTC pipeline seems to have altered little in the distance between Washington and Baku that developed after Fall 2003, when U.S. policy warmed up considerably to Georgia while maintaining a distance to Azerbaijan, in spite of the strong strategic interests that the U.S. has in the country, best illustrated by Defense Secretary Donald Rumsfeld's three visits to Baku in as many years.

The State Oil Fund

The increasing amount of oil revenues as well as the recommendations of the international financial institutions resulted in the Azerbaijani government's decision in December 1999 to establish a State Oil Fund of the Azerbaijan Republic (SOFAR). (decree # 240 signed by President Heydar Aliyev). The statutory regulations of SOFAR were approved on December 29, 2000. Mr. Samir Sharifov was appointed as the executive director of SOFAR, reporting directly to the President.

SOFAR was a new institution in Azerbaijan's political and economic history and required a great deal of care in its establishment and management. Prior to this, Azerbaijan never had an experience with the receipt of large amounts of revenues during a short period of time, or with managing these revenues.

SOFAR's main goal was to accumulate the oil revenues from the Production Sharing Agreements signed with foreign energy companies, and invest them into interest-generating bonds and stocks. At the same time, SOFAR serves as a tool for the prevention of inflation, as a result of massive oil cash inflow into the national economy and subsequent excessive spending that would be likely if the money went straight into the state budget. Finally, SOFAR's funds are considered as an investment opportunity for the domestic economic and social projects in order to diversify the economy.

SOFAR's primary sources of income are generated from bonus payments, royalties, revenues from the sale of crude oil and gas, rental and transit fees, revenues from the joint activities with foreign companies, revenues from investments and from the sale of assets. The accumulated revenues are kept offshore with internationally recognized and reputable financial institutions and fund managers.

SOFAR has been proudly mentioned as one of the most transparent and non-corrupt institutions of the government. From the first day of its operation, SOFAR has been transparent with the local media and NGO sectors about its revenues, earned interests and expenditures. This information has been shared with the public both through SOFAR's web site and regular press-conferences, and the

publication of reports. SOFAR's key principles of operation are its independence from the accounts of the National Bank or the Ministry of Finance; its disconnection from the state budget; additional elements include close supervision, tax exemption, prudence and transparency.

SOFAR has also enthusiastically used the services of local and international auditors. The Parliamentary Chamber of Accounts, the supreme audit institution of the country, is responsible for the regular auditing of SOFAR's activity. At the same time, the international auditing firm Ernst & Young has conducted an audit of SOFAR's activity for three years in a row, and reached the following conclusion: "We have audited the accompanying statements of financial position of the State Oil Fund of the Republic of Azerbaijan (the "Fund") as of December 31, 2003, and 2002, and the related statements of financial performance changes in net assets and cash flows for the years then ended... We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants....In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the Fund at December 31, 2003, and 2002, and the results of its financial performance and its cash flows for the years then ended in conformity with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountant."

In order to further increase the transparency of SOFAR, the Azerbaijani government has decided to join the Extractive Industries Transparency Initiative (EITI), an international initiative by British Prime Minister Tony Blair. The project brings together representatives of governments, industry and civil society to improve transparency in the oil, gas and mining industries. In the second conference of EITI in London in March 2005, Azerbaijan, along with several other countries, was commended for its encouraging progress towards transparency in the oil and gas sectors. Azerbaijan became the first participant of the EITI to disclose the transparency initiative report, and several multinational oil and gas companies operating in the country have promised to fully disclose their monetary transfers into the Azerbaijani government.

Despite the general transparency of SOFAR, local and international organizations continue to express their concerns about the safety of the oil funds and their most effective usage. The IMF and other international organizations recommended to the Azerbaijani government that the role of the primary decision-maker of the SOFAR be passed from the President of the country to the Parliament. Additionally, local economists worry that in spite of SOFAR's transparency, the funds transferred from SOFAR into the state budget for public goods and services will be subjected to corruption and embezzlement. There is little public (media and NGO) control or monitoring over these funds. The local NGO "Public Funds

Monitoring Center and the Open Society Institute-initiated and funded “Caspian Revenue Watch” project have so far been the only initiatives from civil society to monitor oil and gas revenues.

Strategy on the use of oil revenues

By January 1, 2003, SOFAR had accumulated \$690 million. By mid-2005, the figure exceeded \$1 billion. The lion’s share of these funds has come from the sale of crude oil (Azerbaijan’s share in PSAs) and bonus payments. There is a general understanding among the Azerbaijani political leadership that the revenues from the oil contracts will be accumulated in the SOFAR and later be used for domestic projects, aimed at the development of the economy’s non-oil sector. President Ilham Aliyev, Minister of Economic Development Farkhad Aliyev, and other state officials have repeatedly made statements to that effect at official and non-official gatherings.

Yet, up to this moment, the Azerbaijani government has pursued a rather conservative policy regarding this issue, not spending much of the accumulated funds. The President has issued decrees for the allocation of 675 billion AZM (more than \$135 million) for the improvement of social and living conditions and construction of housing for refugees and internally displaced persons, as well as the financing of Azerbaijan’s share in the BTC project. Furthermore, another 500 billion AZM (more than \$100 million) were transferred into the state budget. This conservative policy is often encouraged by the international financial institutions that are afraid of the collapse of the macroeconomic stability and low inflation rate by too much cash input into the national economy. This fear is well shared by the local economists and politicians.

In order to further develop Azerbaijan’s strategy on the utilization of oil and gas revenues, President Ilham Aliyev on September 27, 2004 signed a Presidential decree on “the long-term strategy on the management of the oil and gas revenues.” This decree defines the management of the oil and gas revenues for the period 2005-2025 and proposes that the revenues from oil and gas contracts be used in the future for the following areas:

- development of non-oil sector; regions; small and medium businesses
- large-scale development of infrastructure
- implementation of poverty reduction measures and other social projects
- stimulate the increase of the intellectual and technological basis of the economy
- development of the “human capital”
- strengthening the defense capacity of the country

- re-development of the liberated territories and the resettlement of the displaced people.

Some of these priority directions, such as the development of human capital, have been mentioned not only by the government but also by the UN, opposition parties, and local NGOs. In 2003, the opposition party National Independence Party proposed to allocate \$1 billion from SOFAR funds to establish a scholarship program for Azerbaijani students to study abroad. Some members of parliament have suggested to spend 1% of SOFAR's revenues on the elderly and war veterans. The strengthening of the army has been also cited by the President Aliyev as a regular focus for the spending of oil revenues.

On March 29, 2005, the chairman of the National Bank of Azerbaijan Elman Rustamov has proposed that the funds from the State Oil Fund of Azerbaijan Republic be used for investments in large scale projects, such as building power stations and laying highways. He also warned that these projects should not cause inflation or hurt the general macro-economic policy of the state, but instead be directed at the development of the country's regions as well as the non-oil sector of the economy.

Despite these promises and concrete plans, there have been also disagreements on the use of oil and gas revenues. Some opposition parties have argued that the accumulation of the oil revenues in SOFAR and their investment into foreign low-interest bonds and stock is not as productive as would have been their investment into the local economy. Lack of loans for farmers and small businessmen is often cited as a good example of this problem. A recurrent complaint has been to ask why Azerbaijan borrows money from foreign banks and financial institutions at high interest rate to provide loans to farmers, if it could use its own oil revenues for the same purpose. At least on one occasion, government representatives, such as State Economic Advisor Vahid Akhundov's, have agreed with this concern.

Security Challenges to the BTC Pipeline

The BTC pipeline has been designed to be the most secure pipeline in the world. It is buried under ground and protected against corrosion. The entire route of the pipeline will be under the constant safety surveillance and the program of inspection and maintenance will ensure that the pipeline remains in good condition. BTC co. has pledged to train its staff to respond to any potential incidents. Links from the Sangachal terminal to the metering and pumping stations will provide real-time information about the flow of oil. That said, there are several risk areas for the pipeline that can not and should not be underestimated. Located in a troublesome and unstable area of the world, Azerbaijan faces major threats on a daily basis. Here are some of them:

International terrorism. Azerbaijan is a country that has experienced major problems with terrorism since its independence. Buses, metro, apartments and oil pipelines (a total of 32 terrorist acts) have been blown up on several occasions. Different criminal and political groups have used terrorism to achieve their goals. The government has identified several Armenian, Chechen and even Lezgin groups that have used terrorism to pressure the Azerbaijani government.

International terrorist groups such as the PKK and Al-Qaeda have threatened with the destruction of oil pipelines, should their political demands not met. The PKK even specifically threatened to blow up the BTC pipeline.

Thus, dealing with the international terrorism is a major priority for Azerbaijan's political elite. After the September 11 terror attacks, Azerbaijan joined the international war on terrorism as an enthusiastic partner and sent troops to both Iraq and Afghanistan. It has also arrested at least 39 international terrorists on its territory and deported another 152 suspected terrorists.³ It has actively cooperated with the U.S. and NATO in border security and other areas.

Conflict with Armenia. Azerbaijan has been engaged in a bitter territorial dispute with neighboring Armenia since 1988. The conflict, which started over the Armenian claims to the Azerbaijani area of Nagorno-Karabakh, grew into a full-scale war and resulted in the occupation of over 17 percent of Azerbaijan's territory, the ethnic cleansing of over a million people, the overwhelming majority of which were ethnic Azerbaijanis, from their homes, and the death of over 30,000 people on both sides. Military actions were stopped with a 1994 cease-fire agreement, and during the past 10 years, both sides have with the help of international mediators been trying to find a peaceful solution to the conflict.

In fact, the unresolved conflict between Armenia and Azerbaijan is the largest threat to peace and security in the South Caucasus and perhaps in the wider region. With every year that the deadlocked conflict continues without a solution, the risk of a resumption of hostilities looms larger, with ever larger implications. Until the past two years, the political elites in both Armenia and Azerbaijan have seemed inclined to find a solution by peaceful means. However, the experience of the past two years indicate a hardening of negotiating positions on both sides, while the activity of international mediation is low.

While Armenia has suffered considerably in both economic and demographic terms (mainly due to out-migration) as a result of the conflict, its current leadership refuses to compromise on the demand for Nagorno Karabakh's independence. This is partly due to the dominance of a Karabakh elite in Armenian politics: President Robert Kocharian is the former President of the unrecognized

³ Data is taken from the presentation of the official of the State Border Services of Azerbaijan.

republic, and defense minister Serzh Sarkisian is its former defense minister. This elite seems to give at least equal emphasis to Karabakh's distinct interests compared to those of Armenia proper, unlike former President Ter-Petrosian, who concluded by 1997 that Armenia's interests required a compromise on the status of Karabakh. The influence of the Karabakh lobby is growing, as indicated by a public declaration in June 2004 by Garnik Isagulian, an advisor to President Kocharyan, stating that Armenia's next President should also be from Nagorno-Karabakh, as that area is crucial to Armenia's national interests.⁴ The Armenian leadership currently controls the territory of Mountainous Karabakh and seven adjacent Azerbaijani regions, hence feeling less urgency in a solution. Armenia is clearly interested in preserving the military *status quo* until it can get a favorable deal.

Meanwhile, Azerbaijan's society and leadership is deeply disturbed by the humiliation of losing around a sixth of the country's territory, and the massive refugee and internally displaced population is both an economic drain and a political concern. Popular frustration in the country is rising with what is perceived as Armenian intransigence and international disregard to the aggression committed against their country. Concomitantly, the political elite is increasingly seeing the deadlock in Nagorno-Karabakh as the key and crucial issue preventing the full realization of Azerbaijan's political and economic development and potential. As a result, Azerbaijan views Karabakh as having a higher priority than any other foreign policy concern. The result is an increasingly strong conviction among Azerbaijan's population, intellectual and political elite that Karabakh can only be recovered through the use of force and that Azerbaijan should therefore prepare for the use of force. The defining moment in the development of Azerbaijan's perception of the problem seems to have occurred in August 2002, as President Heydar Aliyev offered the restoration of economic relations in return for Armenian withdrawal from the four occupied territories along the Iranian border. President Robert Kocharyan's refusal to discuss this offer led to a widespread sentiment in Azerbaijan that Armenia's leadership was not interested in a negotiated solution, and that as a result a military solution is the only remaining option to restore the country's territorial integrity and enable refugees to return to their homes.⁵ Ilham Aliyev's government, which has always kept the military option as a last resort, is now increasingly stressing that the Azerbaijani army is ready to liberate its territory if negotiations fail. If the present deadlock continues, as seems likely, the public and elite mood in Azerbaijan will continue to gradually tilt towards war. A new war between Armenia and Azerbaijan, should it take place, is unlikely to remain as limited as the previous one was. In 1992-94, the two states

⁴ Radio Free Europe/Radio Liberty Caucasus Report, vol. 7 no. 23, 10 June 2004.

⁵ Fariz Ismailzade, "Latest Efforts to Solve Nagorno-Karabakh Dispute Fails, Killing Talk of Economic Cooperations", *Central Asia-Caucasus Analyst*, 9 October 2002.

had only rudimentary weaponry, and the military forces involved were far from professional. But in the last eight years, both states have acquired more sophisticated and therefore more deadly arms, meaning that a new war would almost certainly cause much larger human and material destruction.

So far, negotiations have yielded no results and the Azerbaijani population and leadership gets increasingly frustrated with the deadlock in the peace talks. Should the military warfare resume, it will directly threaten the BTC pipeline, as it passes only 30 km away from the Armenian border and the cease-fire line.

Spillover of other conflicts in the Caucasus. The past ten years show the ease with which conflicts in the Caucasus tend to spill over into the territory of other countries. This has been the case for the Chechen conflict, spilling over into the territory of Georgia and into Dagestan in Russia. Azerbaijan is not protected from this and should political or criminal groups destabilize the situation in one region of the Caucasus, the risk that a conflict spillover into Azerbaijan will take place cannot be ignored. In turn, this could threaten the stability of the country's energy infrastructure.

In 2001, for example, criminal groups from Dagestan and Chechnya committed armed actions in the north of Azerbaijan on several occasions. Some separatist slogans were also used with the aim of destabilizing the situation. This might take place again in the future.

Petty thieves. Although BTC is buried under ground, other pipelines and fuel storage risk being attacked by petty thieves, who try to drill a hole in the pipeline and steal fuel. This has taken place on many occasions in the past and although it does not pose a major threat to the pipelines, still it presents a problem for the political leadership of the country and to the environment.

Protection Policy and Methods

Azerbaijan works with its neighbors and international partners to protect the critical energy infrastructure in the country. The protection of the energy infrastructure is undertaken at several levels:

National. According to the BTC agreement, the states shall implement the Voluntary Principles on Security and Human rights within the framework of the international agreements they are party to and their national legislation. Basically, this means that each country that hosts BTC is responsible for the protection of the pipeline in its own territory. Nevertheless, the three countries are actively involved in the coordination of security issues.

Azerbaijan has already taken measures on this issue and trained a battalion of security forces that will be dealing with the protection of BTC. They will use modern equipment and dogs and will station a patrol team at a distance of 30 km

from each other. Azerbaijan also created a state commission to ensure the security of the pipelines. Azerbaijan has also significantly strengthened its state border services in the past ten years. These troops are charged with fighting international terrorism and illegal migration as well as protection of the energy infrastructure in the border areas. These troops also protect the oil and gas fields in the Caspian Sea.

Tri-party (with Georgia and Turkey). In 1999, Azerbaijan, Georgia and Turkey signed an intergovernmental agreement with the aim of creating a consistent, transparent and predictable technical and legal regime for BTC's operation. Host governments also signed "Host Government Agreements" with the oil companies which set out mutual responsibilities of the participants of the construction of BTC to secure the pipeline.

In April 2002, the Presidents of the three countries met in Trabzon, Turkey to discuss ways of protecting BTC. This was the first real step towards ensuring the safety of the pipeline. Following that, in 2002, Azerbaijan's Minister of Interior Ramil Usubov and his Turkish counterpart Abdulkadir Aksu signed a protocol of cooperation in fighting international terrorism and crime. A protocol among Turkey, Azerbaijan and Georgia relating to the East-West energy corridor was signed in Baku on 23 July 2003. This protocol was elaborated according to the BTC Intergovernmental and Host Government Agreements and Article 22 of the "Security Agreement" signed among the three countries on April 30, 2002. Regular command-staff training of representatives of military forces of the three countries take place in which high-ranking officers from the three nations develop measures to ensure the security of BTC. These kinds of exercises have been in place since 1998.

Regional efforts (GUUAM). In 1999, Azerbaijan together with Ukraine, Georgia, Moldova and Uzbekistan created and institutionalized a regional alliance known as GUUAM, aimed at strengthening economic, political and military ties. GUUAM was conceived as a kind of a regional alternative to the CIS. While it began as a means of coordinating foreign and security policies, GUUAM seems poised to take on military duties in the future, especially given Ukraine's and Georgia's increasing interest in the organization. A document circulated by Azerbaijan calls for a joint GUUAM battalion to engage in an exercise on oil field and pipeline protection measures with the participation of Turkey, Azerbaijan, Georgia, and possibly Ukraine. All members of GUUAM have been actively cooperating in the past several years and since 2002 GUUAM members have also been engaged in regional security trainings.

Partnership with NATO and the U.S. A military alliance and pipelines may sound like a mismatch but, in fact, NATO has its own fuel pipelines linking its different facilities, and a department dedicated to their management. This "Infrastructure

Logistics & Civil Emergency Planning Division" has been providing advice to Azerbaijan on environmental security; i.e. handling oil spills and similar accidents. A NATO official stated that the alliance was considering a request from Azerbaijan to expand cooperation to include "operational security", meaning cooperation on actually protecting or defending the Caucasus pipelines. NATO's role would consist of expert visits and consultations. At the same time, the NATO official stated that there were no plans in NATO to offer actual physical aid to the Caucasus pipelines. NATO could, however, provide its military expertise to the planned GUUAM battalion.

Community approach. In many ways, BTC will become a test for a new method of protection of critical energy infrastructure. Yet, it should be kept in mind that traditional methods of utilizing high-tech hardware and military units to safeguard the pipelines often do not yield desired results. It is the involvement of the communities into decision-making processes that can ensure the long-term safety of the BTC and SCP pipelines. A feeling of ownership over the pipelines, and being convinced of their positive impact to the communities, can encourage people to take an active role in the protection of the pipelines and serve as a support resource to the government's paramilitary protection units. The resources of ordinary people should not be underestimated in this case.

BTC and Azerbaijan's relations with foreign countries

Since Azerbaijan gained independence in 1991, the BTC pipeline has been, with the exception of the Nagorno-Karabakh conflict, the most important factor in the foreign relations of the country. Opposition or support for this project has determined the level of the bilateral or multinational relations of Azerbaijan with its neighbors.

Russia

Moscow has been the most vocal opponent of the BTC pipeline. Political circles in Russia have regarded the BTC pipeline as a U.S.-backed project aimed at decreasing the economic and political influence of Kremlin in the Caucasus and breaking Russia's monopoly on the oil and gas export routes. In many ways, that was indeed true. Prior to the building of the BTC and Baku-Supsa pipelines, also supported by the U.S. administration, the pipeline going from Baku to the Russian port of Novorossiysk was the only outlet for Azerbaijani oil. Thus, Moscow vigorously opposed the pipeline from the first days of its initiation.

Russian political scientists and economists have termed BTC as 'economically not viable' and referred to its geo-strategic purpose as the only reason for its construction. Moscow's opposition to BTC has determined Azerbaijani-Russian relations for the most part of the 1990s and has created much animosity and

hostility between the two governments. When the “contract of the century” was signed in 1994, a series of internal coups and high-level political assassinations, all with links to Moscow, rocked the Azerbaijani and Georgian capitals. When the first oil from the Azeri-Chirag-Guneshli oil field was successfully extracted in 1997, the Russian army transferred large amounts of military hardware (totaling over \$1 billion) into the hands of Azerbaijan’s rival Armenia, causing much tension in bilateral relations.

Yet, despite strong opposition and political pressure from Moscow, official Baku never wavered on the issue of BTC. Russian politicians developed something of a tolerance to the pipeline only after construction works started and the pipeline’s existence became a bitter reality to them. Moreover, ever since President Putin came to power in Russia, the bilateral relations between Azerbaijan and Russia have significantly improved, leading up to agreements on the Qabala Radar station, a bilateral delimitation of the Caspian sea, and increased trade volumes.

In 2004, officials of BP, the largest stake-holder of BTC, even shocked the local and international media by announcing that they were considering to ship some Russian oil through the BTC pipeline. BP-Azerbaijan’s President David Woodward informed the public in late December 2004 that the shareholders of BTC Co. were considering, together with British-Russian oil company TNK-BP,⁶ the possibility of transporting Russian oil through the Baku-Tbilisi-Ceyhan pipeline. Local media speculated that this could be done through exporting the Siberian oil via the Russian city of Novorossiysk to Baku, as it was planned during the Soviet times. Currently this pipeline is working in the reverse direction, exporting Azerbaijani oil to Novorossiysk.

Azerbaijani observers have welcomed the idea. They have in general taken it as a proof that Russia seeks ways to participate in this project, because BTC is the best option in the region for exporting oil to European markets due to the congestion in the Bosphorus straits. Moreover, the participation of Russian companies in BTC would only increase the stability of this pipeline.

The Russian daily *Nezavisimaya Gazeta* argued in its turn that Russia intends to boost its presence in the energy projects in the Caucasus in order to balance out the increasing influence of the U.S. in the region. Should these plans materialize, Russia would change its image from an opponent of the BTC pipeline into a participant. In any case, the BTC project, although still jealously regarded in Russia and considered as an American project, is unlikely to play as negative a role in Russian-Azerbaijan relations as it did in the 1990s.

⁶ TNK-BP is the third largest oil company in Russia, established in September 2003, employing 100,000 people and working in such geographic areas as Western Siberia, Far East and Ural region. TNK-BP is a company with 50% of its shares belonging to BP.

Iran and the Islamic world

Iran was another regional power that aggressively opposed the BTC pipeline and the overall involvement of the Western oil and gas companies in projects in the Caspian sea. Official Tehran claimed that the unresolved legal status of the Caspian sea prevents Azerbaijan from inviting foreign energy companies and beginning exploration works. Moreover, the Iranian government was upset that Iranian firms were excluded from the “contract of the century” under strong pressure from Washington.

Iranians watched with great worry as Azerbaijan continued to develop economic, political and even military ties with Tehran’s enemies in the West and thus considered the BTC project as “politically driven.” Tehran has lobbied for the Iranian route for the export of Azerbaijani oil and gas as the shortest and economically most beneficial route.

Due to the above-mentioned reasons, bilateral relations between Baku and Tehran soured for the most part of 1990s, reaching its lowest point in the summer of 2001, when Iranian military jets and gunboats threatened to use force against Azerbaijani vessels conducting exploration works in the Southwestern Caspian sea within the frames of a PSA signed with BP (the Alov oil field, located in the territorial waters of Azerbaijan.) This was a sign of great insecurity and anger on the part of Tehran regarding energy cooperation between Baku and the Western powers.

The situation somewhat changed in 2001, after the terrorist attacks in New York and Washington. The subsequent war on terror launched by President Bush, and the inclusion of Iran into the ‘axis of evil’ changed Tehran’s priorities towards Azerbaijan. Instead of opposing the energy projects and trying to sponsor radical Islamic groups, Tehran undertook a 180-degree change in its policy towards Azerbaijan, in an attempt to secure Azerbaijan’s neutrality in the case of U.S.-Iranian conflict. Fearing that Azerbaijan would serve as the host for American military bases, the Iranian government decided to engage in a partnership dialogue with the Azerbaijani leadership. Reciprocal visits by the two countries’ heads of state illustrate this. Other thorny issues such as the opening of the Azerbaijani consulate in Tabriz, and the beginning of airline flights between Tabriz and Baku were also quickly resolved.

BTC will continue to be treated with frustration in Tehran for a long time, yet its impact on bilateral relations are set to decrease significantly in the coming years as the pipeline becomes a reality.

At the same time, the ongoing poverty in the country and the frustration of the Azerbaijan people with the lack of reforms have led to a rise of Islamic tendencies in the country. A survey conducted by the independent Baku-based Far research center showed that almost a quarter of 1,200 randomly selected respondents favor

Islamic governance. Another 29% welcomed the application of Shariat norms in some aspects of their daily life, such as family life. Another Baku-based think tank, the Foundation for Azerbaijani Studies, came to a similar conclusion after its own survey. The study found that nearly 37% of the surveyed population in the south of Azerbaijan, near the Iranian border, favored Shariat governance.

While the rise of Islamic sentiments among impoverished and frustrated Azerbaijanis could endanger the fate of regional oil and gas projects as well as Azerbaijan's integration with the west, the process has not yet reached proportions that should cause alarm. Nevertheless, in spite of BTC, it is important to note that the Azerbaijani population is increasingly disillusioned with the policy of western powers, especially in relation to the Nagorno-Karabakh conflict.

The West

European states and the United States have been active supporters and participants in the BTC project. Both the Clinton and Bush administrations have lobbied hard for its materialization. Thus, the existence of BTC has significantly improved the relations of Azerbaijan and the Western countries and increased the presence of the U.S. and EU in the Caspian region.

BTC is a tool for economic integration of Azerbaijan into a European, thus global economy. But it is also a major geopolitical asset, linking Azerbaijan with Turkey, a NATO member, and thus creating major guarantees for Azerbaijan's independence and sovereignty. In fact, BTC was pushed through as a project aimed at linking the Caucasus to Turkey through the development of an East-West corridor, which, in turn, would create further opportunities for the American presence in the region.

BTC and other oil and gas projects have created a solid foundation for the integration of Azerbaijan into Western economies and for strong political relations between Baku and Washington. These relations will continue to stay active even after the completion of the construction works, because the issue of BTC's security will most probably involve NATO and the U.S. military to some extent.

Armenia

With the construction of BTC, Azerbaijan has done much to achieve one of its major foreign policy goals – that is, the increasing economic isolation of Armenia with the purpose of weakening it economically and forcing it to compromise on the issue of Nagorno-Karabakh. Indeed, Armenia became one of the biggest losers of the BTC project. Geographically, a pipeline route passing through Armenia onward to Turkey would have been the shortest and economically cheapest way to transport the Caspian oil to the Mediterranean sea. Naturally, the ongoing territorial conflict quickly put an end to this idea. In the early 1990s, some foreign and domestic organizations proposed to build BTC through Armenia in exchange

for the liberation of the occupied territories. Both warring sides nevertheless rejected this proposal with official Yerevan saying that it did not want to trade land for oil, and official Baku adamant to avoid making such a strategic asset dependent on an enemy. Thus, the construction of BTC, SCP, and the development of the East-West energy, transport and telecommunications corridor from Azerbaijan to Europe all took place through Georgia, effectively deepening Armenia's regional isolation. With all major regional projects bypassing Armenia, economic stagnation and lack of trade opportunities weaken Armenia's future development.

At the moment, influential circles both in Armenia and other regional states as well as international organizations believe that the completion of BTC and the subsequent export of "major Azerbaijani oil" will distort the military balance between Baku and Yerevan, and in turn increase the likelihood of the resumption of the military hostilities. Up to this moment, BTC has played rather a deterrent role with regard to the resumption of military activities between Armenia and Azerbaijan, because the Azerbaijani government sought not to jeopardize this major investment. But as oil production continues to increase in Azerbaijan, the government is spending increasing amounts of funds for the modernization of the army. Speaking in December 2004, President Aliyev said that he intended to double the military budget and do so consistently in the coming years. Coupled with the deadlock in the peace process and the growing frustration among the Azerbaijani population and elite over the fruitlessness of the negotiations, increasing military power might well push Azerbaijan toward the resumption of military activities and an attempt to retake the lost lands by force. Influential public and political figures in Azerbaijan openly call for this already. Of course, if wisely used, Azerbaijan's strengthened situation could simply provide the government with a stronger negotiating position, which it has lacked in the past.

In 2005, the number of cease-fire violations along the Armenian-Azerbaijani border and cease-fire line surpassed such incidents in previous years, causing much worry among international organizations, and forcing OSCE to conduct an unplanned monitoring of the border areas. Only in March 2005, 48 cease-fire violations were recorded. The UK-based non-governmental organization International Alert, in a recent report on the impact of BTC on the regional conflicts, warned that the success of BTC and the growing oil revenues of Azerbaijan would increase development disparities in the South Caucasus and might well lead to the restoration of the conflicts rather than their solutions. This analysis omits the possibility that BTC's completion will further lead to the current development in Armenia toward a reconsideration of its foreign policy priorities, and toward a more conciliatory position in regard to the conflict.

China

Perhaps unnoticed at first, China has been gradually moving to become one of Azerbaijan's reliable partners in the oil and gas sector. President Ilham Aliyev's March 17, 2005 visit to China marked a new, more expanded phase in the bilateral relations.

From the economic point of view, Beijing is most interested in Azerbaijan's oil. China's growing economy requires constant access to ever more sources of oil, and the expanding oil and gas sector of Azerbaijan serves as an attractive market for this purpose. Several Chinese companies have already been granted production-sharing agreements by the Azerbaijan State Oil Company for the development of onshore oil fields in the country. For instance, in June 2004 the Chinese oil company Shengli received a permission to work on the Garachukhur oil field. It is expected that the completion of BTC and the increase of oil and gas production will further expand Azeri-Chinese relations with further implications to the textiles, military, trade and political spheres.

Central Asia

Three countries in the Central Asian region have played a major role the foreign policy of Azerbaijan in the past decade, more specifically in the area of oil and gas industry. Foremost, the construction of BTC has opened new opportunities for relations between Azerbaijan and Kazakhstan. The two countries were already enjoying a high level of economic and political relations, but the materialization of the BTC pipeline opened doors for Kazakhstan's oil to be shipped to the Western markets not only through Russian-owned pipelines as previously, but also through pipelines that do not pass through Russia. Azerbaijani and Kazakhstani officials have been engaged in bilateral talks over the conditions of the shipment of Kazakh oil through BTC. Most recently, Kazakhstan's President Nursultan Nazarbayev announced that experts from both sides would work together to agree on the tariffs. Should Kazakhstan's oil also be shipped via BTC, it would further strengthen bilateral relations between the two countries.

Azerbaijan's relations with Turkmenistan have not developed as smoothly as was the case with Kazakhstan. Ashgabat has contested the Kyapaz oil field, located in the middle of the Caspian sea, with Baku. This dispute led to the deterioration of the bilateral relations and tensions between the two capitals. This in turn, has effectively killed – for the time being – the idea of building a Trans-Caspian gas pipeline to export Turkmen gas via Azerbaijan and Georgia.

Uzbekistan, on the other hand, has developed rather firm relations with Azerbaijan and has been playing an active part in the development of the East-West energy

and trade corridor. Tashkent and Baku reaffirmed their strong ties also through the regional alliance of GUUAM.

Conclusion

The successful completion of the Baku-Tbilisi-Ceyhan pipeline is a major victory in Azerbaijan's foreign policy. Indeed, in the mid-1990s, few analysts believed this pipeline would ever be built. As late as 2000, western, Russian, and Iranian analysts alike could still be caught on record arguing that the chances of the pipeline being built were close to nil. In spite of the dire predictions, BTC was built to a significant extent because of an often neglected factor: it was the strategic decision of the Azerbaijani government to export its energy assets through a western pipeline. This, in connection with the Turkish straits issue, strong U.S. government support, and the lack of other options with both economic and political viability, ensured that BTC emerged as the sole feasible option for the export of Azerbaijani major oil.

The realization of the BTC pipeline carries major implications for the development and strengthening of Azerbaijan's statehood and independence, as well as for its relations with the Euro-Atlantic community. First of all, BTC ensures that Azerbaijan's major economic assets are not in the hands of regional powers that would be inclined to use this asset to influence or control Azerbaijan's foreign and domestic affairs. But beyond this, BTC will help Azerbaijan to emerge as a player on the world stage. As a new significant non-OPEC source of oil, Azerbaijan will become a significant contributor to Europe's energy security, a desperately needed asset given Russia's dominance in the European energy market. Domestically, the income generated by oil exported through BTC constitutes a tremendous opportunity for Azerbaijan to find a short-cut in its economic transition and in the building of a modern, wealthy and diversified economy.

In political terms, BTC will be of great significance for Azerbaijan's regional position. Situated in a strategic location and surrounded by great powers, Azerbaijan's small population and size would tend to doom it to the role of a minor power under the influence of larger states. Indeed, most states in the Caucasus and Central Asia have often found themselves either under the dominant influence of one larger power, or forced to play off regional powers against one another to maximize their own independence and freedom of action. This exercise consumes substantial energies and impedes the development and implementation of long-term strategic foreign policy goals. Moreover, it makes the state dependent on the shifts in policy and attention of one or several regional power. Indeed, Armenia is heavily dependent on continued Russian commitment, just as Georgia depends on America's attention. Thanks to its energy resources, Azerbaijan stands a chance to fulfill its leadership's long-standing goal to emerge as a regional player in its own

right. This in no sense means Azerbaijan will become a regional power; what it does mean is that Azerbaijan can build its statehood and security on a more equal basis with its neighbors, as well as regional and great powers. This feat, which Azerbaijan shares only with Kazakhstan and Uzbekistan in the wider region, would have been impossible without BTC.

Of course, BTC is not a panacea for the solution to all of Azerbaijan's very real challenges. Indeed, its effect on the country's political development are unclear, as it poses both an opportunity for political reforms and carries simultaneous risks for a slowdown of reforms. Likewise, BTC could significantly strengthen Azerbaijan's negotiating position vis-à-vis Armenia, and thereby help it achieve a negotiated solution; but it could also increase the risk of renewed hostilities. In the end, BTC provides great opportunities for Azerbaijan's development in political, economic, as well as strategic terms. The extent to which the numerous expectations that are tied to BTC will be realized will depend on the government's ability to capitalize on these opportunities.