

# The Eastern Neighbourhood Region and the EU's energy interests

November 2015

For more information

**Manana Kochladze**  
European Neighbourhood Policy  
Coordinator  
manana@bankwatch.org

## Azerbaijan case study

Azerbaijan has been a part of the EU Neighbourhood Policy since 2004. The EU's interests in Azerbaijan are largely defined by the Energy Memorandum signed in 2005, which was later strengthened by the Eastern Partnership Initiative and the joint declaration on the Southern Gas Corridor in 2011. According to the then EU Energy Commissioner Ottinger, *"Azerbaijan has confirmed its critical role and commitment to building bridges to the EU. We are closely following gas operations in Shah Deniz-2. The Commission has long underlined its interest in a strategic allocation of gas from Shah Deniz-II that allows the Southern Gas Route to develop".<sup>1</sup>*

Shah Deniz is the largest gas field in Azerbaijan and contains one trillion cubic metres of gas. The first phase of field development began in 2006, aided by a USD 110 million loan from the European Bank for Reconstruction and Development (EBRD) in 2004. The South Gas Corridor pipeline from Baku to Erzrum was constructed in parallel to the Baku-Tbilisi-Ceyan pipeline.<sup>2</sup> Gas production has risen by five per cent when compared to 2013, reaching 18.7 cubic metres of marketable gas. Proven gas reserves were reported to have risen to 2.3 trillion cubic metres.

The second phase of development at Shah Deniz was announced by BP at the end of 2013 and is planned to become operational in 2018, a move welcomed by the European Commission.<sup>3</sup> The Shah Deniz consortium awarded contracts valued at USD 9.6 billion, and expansion works are already underway in Azerbaijan and Georgia as of 2014.<sup>4</sup> In total, the EBRD approved EUR 664 million to Russian Lukoil to invest in the second phase of Shah Deniz. Another component of the Southern Gas Corridor – the Trans-Adriatic Pipeline – will be constructed with the support of the European Investment Bank. TAP is one of the Commission's priority energy security projects of common interest, and the EIB will allocate around EUR 2 billion for the project.<sup>5</sup> One of the major sponsors of TAP is SOCAR, the State Oil Company of the Republic of Azerbaijan. Exports of crude oil peaked in 2010 when they averaged around 908,000 bbl/d, and though oil exports have declined each year since then, it is expected that oil exports will remain around 40 million tonnes per year.

---

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

[www.bankwatch.org](http://www.bankwatch.org)

1 [http://europa.eu/rapid/press-release\\_SPEECH-10-402\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-10-402_en.htm)

2 [http://www.bp.com/en\\_az/caspian/operationsprojects/Shahdeniz/SDstage1.html](http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage1.html)

3 JOINT STAFF WORKING DOCUMENT Implementation of the European Neighbourhood Policy in Azerbaijan Progress in 2014 and recommendations for actions , Implementation of the European Neighbourhood Policy in 2014 , SWD/2015/0064 final. See <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52015SC0064>

4 [http://www.bp.com/en\\_az/caspian/press/pressreleases/New-contract-for-Shah-Deniz.html](http://www.bp.com/en_az/caspian/press/pressreleases/New-contract-for-Shah-Deniz.html)

5 <http://www.eib.org/projects/pipeline/2014/20140596.htm?media=rss&language=en>

6 <http://www.eia.gov/countries/cab.cfm?fips=aj>

Other energy projects include the development of the Azeri Gunesli Chirag oil fields and the Baku–Supsa (1998) and Baku–Tbilisi–Ceyhan (2006) pipelines, which have the capacity to carry more than 50 million tonnes of oil per annum. Both received support from the EBRD and International Finance Corporation. While the IFIs had promised that the BTC pipeline would be a model development project that would alleviate poverty and serve as a tool to improve human rights protection in the region, horrendous testimonies from those living adjacent to the pipeline route reveal many cases of unpaid compensations or underpayment, intimidation, damage to property, and increased instances of prostitution and human trafficking.

As a result of cooperation on such energy projects, the EU is today Azerbaijan's main trading partner, with bilateral trade amounting to more than EUR 16.7 billion in 2014. Thus it is difficult to see how Azerbaijan can be engaged through standard ENP tools.

While the 2014 EC progress report on Azerbaijan stressed that *"there was good progress on the EU's Strategic Energy Partnership with Azerbaijan to improve European energy security and the diversification of energy supplies"*<sup>7</sup>, the problems for ordinary Azeris are increasing.

President Aliyev, whom the US and EU do not see as a 'dictator' but rather *"as the leader of a country with an emerging democracy that has a long way to go to become a healthy democracy"*<sup>8</sup>, consolidated his authoritarian rule after a March 2009 referendum that eliminated presidential term limits. According to Freedom House, in recent years Azerbaijan hasn't improved its record and the country's status is again "not free".

Between May and November 2014, Azerbaijan chaired the Council of Europe during which it continued to clampdown on freedom of expression, assembly, and association following elections in October 2013. In July 2014, the authors of a report

on 98 political prisoners, Mrs. Leila Yunus<sup>9</sup> and Mr. Rasul Jafarov<sup>10</sup> were arrested on criminal and espionage charges.<sup>11</sup> The list has increased with other prominent human rights defenders since then.<sup>12</sup> Aside from multiple arrests, law-enforcement agencies have frozen the bank accounts of more than 20 local and foreign non-governmental organizations.

Azerbaijan claimed that it drastically reduced poverty from 50 per cent in 2000 to 7.6 per cent in 2011, due to increased oil revenues for the state budget. According to a report by the International Fund for Agricultural Development (IFAD)

*"more than half of Azerbaijan's poor live in rural areas where poverty is predominant among families with many children living in remote areas, as well as upland or mountainous areas. Rural communities generally have access to sufficient food, but productivity tends to be low and is often exacerbated by rising food prices; poor basic infrastructure, including inadequate irrigation and road access; unreliable drinking water, gas and electricity supply; and declining health and education services."*<sup>13</sup>

Despite rising wealth, public expenditures on education did not account for more than 2.8 per cent of the state budget in 2010, with health expenditures around 3.5 per cent.<sup>14</sup>

Azerbaijan has used oil revenues for pet projects like the renovation of the Baku city centre, which led to the eviction of around 140 000 homeowners between 2008 and 2014 without proper compensation.<sup>15</sup> The evictions became an even more problematic issue in 2012 when Baku began preparation for the Eurovision song contest and the

9 Together with Leila her husband was also arrested and sentenced in August 2015.

10 Rasul Jafarov, founder of the Human Rights Club and the organizer of the "Sing for Democracy" campaign during the Eurovision-2012 song contest in Baku was sentenced to six and a half years in jail.

11 [http://eap-csf.eu/assets/files/List\\_of\\_Political\\_Prisoners\\_AZ-\(2\)-\(1\).pdf](http://eap-csf.eu/assets/files/List_of_Political_Prisoners_AZ-(2)-(1).pdf)

12 Since then, the authorities have brought additional charges that carry up to 12 years of imprisonment, if convicted.

13 [http://www.ifad.org/operations/projects/regions/pn/factsheets/azerbaijan\\_e\\_web.pdf](http://www.ifad.org/operations/projects/regions/pn/factsheets/azerbaijan_e_web.pdf)

14 World bank data

15 [http://kavpolit.com/articles/bakinskaja\\_politsija\\_presekla\\_aktsiju\\_protesta-1279/](http://kavpolit.com/articles/bakinskaja_politsija_presekla_aktsiju_protesta-1279/)

inaugural European Olympic Games in 2015,<sup>16</sup> which cost around USD 8 billion to host. According to some media reports, Aliyev's government allegedly cut public sector workers' salaries as an informal tax to pay for European Games.<sup>17</sup>

While Azeri citizens have paid large sums of money in order to access basic services like health care, while resisting evictions and 'shadow' taxes, President Aliyev has lavished vast amounts of money on foreign cultural institutions with the hope of receiving support from the international community. Such investments include the renovations of the Strasbourg Cathedral and the Versailles Palace.<sup>18</sup> Great amounts of money are also spent to commemorate the president's father, Heydar Aliyev<sup>19</sup> with statues in different parts of the world.<sup>20</sup>

## Conclusion

The worsening track record and increasing clampdown on human rights and CSO activists in Azerbaijan runs in parallel to the expanding cooperation with the EU. Closer EU–Azeri ties support and strengthen the Aliyev regime, while depriving regular Azeris of the social and economic benefits that cooperation with the EU brings.

As Azerbaijan's top trading partner, the EU is the most powerful external actor in the country and should therefore exercise political leverage towards the regime.

- The EU should suspend any type of funding to the Azeri government, whether via the European Neighbourhood Instrument, European Investment Bank or the European Bank for Reconstruction and Development, until the situation with respect to human rights has

improved and those arrested due to political motivations are released;

- Ensure that any visa facilitation agreement includes measures to ban those directly involved in the harassment of CSOs from entering the EU;
- Follow-up on instances of harassment by the Azeri authorities of human rights and CSO activists in order to ensure their legal protection;
- Introduce trade and economic conditionalities in dealings with the Azeri government to ensure the fundamental rights of Azeris are protected.

16 *ibidem*

17 <http://www.eurasianet.org/node/73216> and <http://www.ibtimes.co.uk/baku-2015-azerbaijan-government-docking-staff-pay-fund-bloating-european-games-costs-1505670>

18 <http://platformlondon.org/2013/05/16/even-oil-dictators-need-a-social-license-to-operate/>

19 Heydar Aliyev, ruler of Soviet Azerbaijan and former head of the KGB became president for a decade following a coup in 1993.

20 Turkey, Georgia, Egypt, Iraq, Uzbekistan, Kyrgyzstan, Russia, Ukraine, Serbia, Romania, and Moldova, <https://goo.gl/q3fGgp>