

## Future prospects of Azerbaijan in the context of increasing international role of the Caspian region

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**Abstract.** This work presents an analysis of current geopolitical situation in the Caspian region as the severe confrontation for Caspian hydrocarbons is growing on. Azeri prospects in these conditions are discussed.

**Key Words and Phrases:** Oil production, gas and chemical industry, Azeri-Russian relations, the Caspian region.

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Azerbaijan has some huge deposits of hydrocarbons and good perspectives for exploiting them.

Economically, this is quite feasible when we talk about oil. Indeed, oil reserves in the Caspian are mostly easy to extract and, consequently, highly remunerative. In general, Caspian region countries do not face problems like those faced by Western powers which have to exploit new hard-to-reach fields of energy, such as shale gas and shale oil in the United States, oil sands in Canada, underwater mining complexes in Norway, etc [1].

Besides, there is another factor which is very important in global competition for resources: Caspian oil is mostly “light”, i.e. structurally very close (unlike Russian oil brand Urals produced in Tyumen) to the “reference pattern” produced in the Persian Gulf countries.

As for the gas resources, just three Central Asian countries located at the Caspian seashore – Kazakstan, Turkmenistan and neighboring Uzbekistan – account for 12 percent of the world’s total gas reserves. In quantitative terms, it makes about 22 trillion cubic meters, very close to the Russian reserves of 24 trillion cubic meters [2].

Also, Azerbaijan has vast reserves of gas easy to extract and to transport. In 1999, the discovery of the giant Shah Deniz gas field instantly made this country one of the largest natural gas proven reserve holder in the world. That was soon followed by the signing production sharing agreements with world giants Statoil and Royal Dutch/Shell [3]. Moreover, the launch of second gas platform in Shah Deniz will make country’s total volume of gas reserves exceed 1 trillion cubic meters. And, let’s recall what Azeri President

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Ilham Aliyev said during his visit to Brussels in July 2013: “Hopefully Azerbaijan’s gas reserves will not be restricted to those produced in Shah Deniz. We have more than 3 trillion cubic meters of proven reserves” [4, p. 151].

The indisputable advantage of Azerbaijan as an international player in the energy sector is that the Azeri part of the Caspian seashore, which comprises about 79.000 square kilometers (20 percent of all Caspian water area), is currently best explored [5]. In our opinion, this factor makes Azerbaijan much more attractive for potential strategic investors in the field of exploitation of oil and gas fields.

Taking into account the fact that almost all the gas reserves of Russia are located far away from the Caspian (mostly in Yamalo-Nenets Autonomous Okrug and other northern territories which account for from 85 to 90 percent of total Russian gas production), we can conclude that in the near future the major players in international oil trade in the Caspian region will be such post-Soviet countries as Kazakstan, Azerbaijan, Turkmenistan and Uzbekistan, and, of course, Iran. Oil profits will allow these countries to shape their own economic and foreign policies.

Russia, in turn, due to a number of political factors, will have to fight to maintain its positions in global energy markets. Not only now, but for the years ahead, too. The reason is not only the severe economic competition but also the counteraction by the leading Western powers. On the other hand, we have to mention the following fact: as the demand for oil and gas grows continuously all over the world, oil production drops in many places. For example, *Economist Intelligence* reports that the average oil production decrease in well-known oil fields is about 2-6 percent a year (including Western Siberia, Russia’s old-times oil region, where the oil production drops continuously since 2006), while the global oil demand grows by 2% every year [6]. This gives us the reason to suppose that the leading oil producing countries and their oil companies are going to concentrate on the discovery and exploitation of completely new fields, including those in the Caspian.

As a natural consequence of the above-mentioned, we can assert that those countries with a powerful economic and political potential which are going to enter a phase of ever-growing need for hydrocarbons will be quite naturally most active and most involved in the Caspian region states. In this aspect, two major oil consumers meeting the above criteria come into one’s mind: European Union and China.

It should be also noted that the countries which have their own hydrocarbon resources (we mean China, the United Kingdom and Norway) are currently on the brink of depleting them. Very soon oil and gas production in most of these countries will start to decrease, and, with current exploitation rates, in the next 12-15 years all their reserves will be fully exhausted.

Now let’s recall that the leading world powers first showed interest in the oil and gas potential of the Caspian region in the early 1990s, i.e. right after the collapse of the former Soviet Union. For the leading Western powers, oil and gas resources of the Caspian are not only the alternative source of energy today, but also the profit potential for the future when, as mentioned above, all the other raw material sources will be exhausted. Moreover, we should mention another important factor which makes the Caspian resources

so attractive for the West: the ever-growing influence of China.

In the early 1990s, Chinese company Sinopec with 88% of shares in Petrochina, has entered the severe battle for global hydrocarbon resources. Widely backed by the government of China, this company started its successful activities in more than 25 countries of the world including CIS countries. Sinopec, inter alia, was allowed to take part in oil field exploitation in Azerbaijan and Kazakstan.

Today, this trend is getting more and more distinctive. And the reasons of this are obvious. Stressing the growing global influence of China, Azeri economist F.Murshudli claims that China is becoming the major stimulator for all emerging markets as the financial and economical crisis in Europe goes on [7].

In our opinion, the above arguments are also important in the context of the rivalry between Chinese and West European oil and gas companies. The rivalry which extends on the Caspian region countries, too. Today, the biggest companies in the West, Saudi Arabia and China consider these countries as the prospective independent hydrocarbon producers (Norway, Mexico, Canada and some others may also be added to the list)[8]. A big fight is going on to make a friendship with these countries, to get an allowance to work in these countries, to construct new pipelines or to use the older ones there. And, let's recall once again that the Caspian oil is mostly "light", i.e. not only much easier to produce from financial point of view as compared to other oil regions, but also much easier to process.

As this severe fighting for exploitation of Caspian hydrocarbons is going on, Azerbaijan enjoys good prospects mainly due to its balanced foreign policy. A.Vlasov, Director General of Post-Soviet Studies Center at the Moscow State University, says that the foreign policy pursued by the Azeri government aims at bringing the interests of foreign players in the Caspian into conformance with the national interests of Azerbaijan [9]. It should be taken into account that the geographical location of this country as well as its cultural and historical legacy also predetermines the character of its foreign policy. The country is located at the crossroads of Islamic and European civilizations, and, quite naturally, has a full membership in such international organizations as the Council of Europe and the Organization of Islamic Cooperation.

The Republic of Azerbaijan is shaping its multilateral and bilateral relations with both leading World powers and CIS countries on the basis of above-stated principles. Diversification of Azerbaijan's foreign policy is reflected, in particular, in its membership in GUAM, the politico-economic organization created in 1997 by four CIS countries – Georgia (officially left CIS in August 2009), Ukraine, Azerbaijan and Moldova. From 1999 to May 2005, when Uzbekistan was another member of this organization, the acronym was GUUAM.

Due to objective reasons, the relationship with the Russian Federation is most important for the Republic of Azerbaijan as compared to its bilateral relations with other CIS countries. As a testimony to the rapidly growing relationship between two countries, we can mention the fact that the joint businesses in both countries are mostly intended for a long period of time. Of course, this is the result of both countries reluctance to create agreeable working conditions for each other. Besides, it should not be forgotten that the

friendly relationship between the Republic of Azerbaijan and the Russian Federation is based on the principles of good neighbor policy in the Caspian.

That is why Azeri politicians with a realistic view of Russia's role in global and regional processes are absolutely right when stressing the special importance of Azeri-Russian relations for the peace and prosperity in the Caspian region. "Over the past 10 years, taking full responsibility for the region, Baku and Moscow repeatedly showed their willingness to compromise which helped to avoid any situation where a possible conflict of interest could arise in the region. . . Both countries have enough potential to contribute to the enhancement of the global importance of our region," wrote in his recent book Ramiz Mehdiyev, head of the Presidential Administration of Azerbaijan.[4, p.173].

Hence, we are now able to shape the principles that determine the basis of modern Azeri-Russian relations. These are:

1. mutual respect for the principles of national sovereignty in the context of foreign policy;
2. equal rights for both countries when signing any kind of political or economical agreement;
3. full freedom for either country for political and economical relations with a third party if these are not harmful for other party;
4. commitment to coordinate with each other in the Caspian region for the sake of neighborliness and cooperation on a long term basis.

It seems like long-term political and economical relations based on the above-stated principles will be mutually beneficial for both countries in the context of current realities in the Caspian region.

Today's objective reality is that Azerbaijan is not only reliable geopolitical and economical partner for the Russian Federation, but also the most influential political player in Southern Caucasus. The world is interested in Azerbaijan, and this is proved by the fact that the special session of Davos World Economic Forum (WEF) entitled Strategic Dialog on the Future of Southern Caucasus and Central Asia has been held in April 2013 in Baku. 140 world-renowned experts, political scientists and economists from 40 countries including Klaus Schwab, founder and executive chairman of the WEF, have attended this session. The choice of Azerbaijan as the venue for such a big event shows how much the global financial and economic elites appreciate this country and how much importance they attach to this country in the settlement of prospective regional conflicts in the Caspian region and in the Caucasus as a whole.

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