



# The Azerbaijan-Russia-Turkey Energy Triangle and its Impact on the Future of Nagorno-Karabakh

Nona Mikhelidze

## Abstract

Following the dissolution of the Soviet Union, the Caucasian-Caspian region has become a stage for the collision of opposing foreign security and energy policies. After 16 years of a very fragile ceasefire, the peace process between Azerbaijan and Armenia over the disputed region of Nagorno-Karabakh continues to depend not only on the attitudes of the conflict parties, but also and perhaps even more on the re-organization of the region at the political, security and energy levels. Three main developments can affect the prospects for conflict resolution in Karabakh: the parties' growing frustration with the OSCE Minsk-Group mediation; the US-brokered Turkish-Armenian rapprochement and the deterioration in US-Azeri relations; and finally, Russia's resurgence in the region. These three inter-related factors could result in a new regional scenario marked by the emergence of an energy triangle between Azerbaijan, Russia and Turkey, which in turn could impact on the destiny of Nagorno-Karabakh.

**Keywords:** *Azerbaijan / Nagorno-Karabakh conflict / Armenia / Turkey / Energy / Russia / European Union / United States / Organization for Security and Cooperation in Europe (OSCE)*

## The Azerbaijan-Russia-Turkey Energy Triangle and its Impact on the Future of Nagorno-Karabakh

by Nona Mikhelidze\*

Since 1988 and the beginning of *perestroika* several ethno-territorial conflicts have erupted in the former Soviet republics. The conflict between Azerbaijan and Armenia over Nagorno-Karabakh goes back to the inter-communal violence that started in 1988, soon after the non-binding referendum in which the Armenian majority in the Nagorno-Karabakh Autonomous Oblast within the Azerbaijan SSR (Soviet Socialist Republic) voted for unification with Armenia. Following the declaration of Nagorno-Karabakh's independence in 1991, Armenia occupied seven adjacent regions,<sup>1</sup> provoking a full-scale military clash with Azerbaijan. The fighting ended with the Russian-brokered ceasefire in 1994, having caused about 30,000 deaths and the displacement of approximately one million Azeris.<sup>2</sup> Alongside this, the conflict has had long-lasting consequences for the stability and economic prosperity of the region.

The Nagorno-Karabakh conflict is multidimensional, touching upon ethnic, historical, legal, geopolitical and geo-economic issues. In the 1990s it was a key reason (among others) for the deterioration of Turkish-Armenian relations and a main obstacle to their ensuing rapprochement. It has also become an instrument in Russia's hands to maintain a situation of "stable instability" in the South Caucasus by exploiting the conflict parties' political and economic weaknesses. It has also been used by the Armenian and Azeri authorities as a pretext to justify their policy failures at the domestic level. Furthermore, following the dissolution of the Soviet Union, the Caucasian-Caspian region has become a stage for the collision of opposing foreign security and energy policies. After 16 years of very a fragile ceasefire, the Nagorno-Karabakh peace process continues to depend on the geopolitical re-organization of the region and the energy agreements between local and external actors.

Nowadays three main - old and new - regional developments could affect the prospects for conflict resolution in the secessionist entity: the growing frustration with the OSCE Minsk-Group mediation coupled with the EU's low-key role in conflict resolution efforts; the US-brokered Turkish-Armenian rapprochement and the deterioration in US-Azeri relations; and finally Russia's resurgence in the region. These three inter-related factors could result in a new regional scenario marked by the emergence of an energy triangle between Azerbaijan, Russia and Turkey, which in turn could impact on the future of Nagorno-Karabakh. Looking into the conflict dynamics and tackling the three

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<sup>1</sup> In order to ensure its access to Nagorno-Karabakh, given that the region is an enclave entirely surrounded by Azerbaijan.

<sup>2</sup> Thomas de Waal, *Black Garden, Armenia and Azerbaijan Through Peace and War*, New York and London, New York University Press, 2003, Appendix I.

above-mentioned factors, this paper explores the prospects for conflict resolution in Karabakh from a regional perspective.

## 1. The context: conflict dynamics in Nagorno-Karabakh

The Nagorno-Karabakh conflict is the oldest regional conflict in the post-Soviet space. A breakthrough in its peace process does not appear to be on horizon. Azerbaijan, claiming international law on its side, remains firm in its refusal to compromise upon its territorial integrity. Armenia continues its military occupation of the seven regions surrounding Nagorno-Karabakh without any intention of withdrawing its forces without a quid pro quo from Azerbaijan. Since 2003 Azerbaijan's President Ilham Aliyev has pledged a military solution of the conflict. Indeed nearly 82% of Azeri oil revenues are channelled to increased military spending including significant heavy artillery.<sup>3</sup> Two new programmes of modernization of Armenia's armed forces and military industry approved by the government commission on national security indicate that Yerevan, which used to regard the *status quo* as the first-best scenario to gain international recognition of Nagorno-Karabakh, is now also preparing for a possible new war.<sup>4</sup> The Armenian Defence Minister Seyran Ohanian has acknowledged that the decision to upgrade the domestic defence industry is a direct response to the threats from Azerbaijan about a renewed war in Nagorno-Karabakh.

The continuous war rhetoric from Azerbaijan is largely connected to the growing frustration with the Western-driven mediation process. Up to today, all attempts to resolve the conflict at the international (the OSCE Minsk Group) and/or regional levels have borne no fruit. However, setting aside war, in order to "resolve the conflict" Baku could play another card: energy and changes in the oil and gas sectors. Three factors, discussed below, could lead to a materialization of this option.

### 1.1 The deadlocked OSCE Minsk-Group process and the EU's low-key role in Nagorno-Karabakh

In view of the currently blocked status of the peace talks on Nagorno-Karabakh, the OSCE Minsk-Group process, established in 1994 and led by Russia, France, and the United States,<sup>5</sup> can be viewed as dead or dying. In 2007 the Minsk Group issued the so-called Madrid Principles,<sup>6</sup> the endless discussions on which speaks for itself about

<sup>3</sup> Sabine Freizer, "Nagorno-Karabakh – A Frozen Conflict That Could Boil Over", *European Voice*, 31 January 2008. Available at <http://www.crisisgroup.org/en/regions/europe/caucasus/azerbaijan/freizer-nagorno-karabakh-a-frozen-conflict-that-could-boil-over.aspx>.

<sup>4</sup> "Armenia Seeking Long-Range Weapons", *Radio Free Europe/Radio Liberty*, 10 August, 2010, [http://www.rferl.org/content/Armenia\\_Seeking\\_Long\\_Range\\_Weapons/2124214.html](http://www.rferl.org/content/Armenia_Seeking_Long_Range_Weapons/2124214.html).

<sup>5</sup> The permanent members of the OSCE Minsk group also include Germany, Italy, Sweden, Finland, Belarus, Turkey as well as Azerbaijan and Armenia. See OSCE Minsk Process basic documents at <http://www.osce.org/item/21979.html>.

<sup>6</sup> The Madrid Principles stipulate the withdrawal of Armenian forces from Nagorno-Karabakh and its adjacent regions, including the district of Kelbajar and the strategic Lachin corridor that links Armenia to Nagorno-Karabakh; the demilitarization of these territories followed by the deployment of international peacekeeping forces there; arrangements for Internally Displaced Persons to return safely to their homes; and finally a referendum among the population of Nagorno-Karabakh to determine its future status. See Statement by the OSCE Minsk Group Co-Chair countries, <http://www.osce.org/item/38731.html>.

the conflict parties' lack of seriousness and commitment in the peace process. Furthermore, the object of dispute - Nagorno-Karabakh - has never been considered as a subject and has thus never been invited to the negotiation table. Other serious shortcomings characterize the Minsk Group process. One of the main tasks of the forum was 'obtaining conclusion by the Parties of an agreement on the cessation of the armed conflict in order to permit the convening of the Minsk Conference; [and] promoting the peace process by deploying OSCE multinational peacekeeping forces'.<sup>7</sup> Yet the OSCE has never managed to establish a peacekeeping mission in the conflict zone. One of the reasons for this is that the EU has never supported this development which would have made Karabakh a regular issue on the EU-Russia agenda, contenting itself to engage only indirectly with the conflict through its aid packages to Armenia and Azerbaijan or its programmes - e.g. TRACECA or Black Sea Synergy - aimed at regional cooperation. Thus the whole mediation process has suffered from the lack of cooperation between the OSCE Minsk Group and the EU as well as of a common EU-US strategy towards the region. Hence, according to the International Crisis Group, since the inception of the Minsk Group, about 3,000 people have died on both sides as a result of the violations of the ceasefire.<sup>8</sup> After 16 years of the OSCE's involvement in the peace process, it may be high time to discuss the progress of this forum. The number of deaths speaks alone about the effectiveness of the OSCE's mediation.

### 1.2 The US-brokered Turkey-Armenia rapprochement and US-Azeri relations

More recently, another factor has affected the Nagorno-Karabakh issue: the Turkish-Armenian rapprochement,<sup>9</sup> which is in turn linked to the evolution of the conflict. The reconciliation between Ankara and Yerevan has been largely supported by the United States. However, the confronted parties have failed to ratify the Turkish-Armenian protocols not least because of the US's unwillingness to engage fully in the framework of the OSCE Minsk Group mediation process over Nagorno-Karabakh. The US has claimed that the genocide issue is the major obstacle to the ratification of the protocols. However, the major obstacle, on Turkey's side, is the stalemate in Nagorno-Karabakh. In fact, after the dissolution of the Soviet Union Turkey was one of the first states to recognize Armenia, opening its borders and establishing political/diplomatic relations with its neighbour. The genocide issue was not an obstacle to this. Turkey closed the borders with Armenia because of the Nagorno-Karabakh conflict, when Armenia occupied Azerbaijani's Autonomous Oblast and seven adjacent regions.

The US's marginal involvement in the peace process has also affected negatively its relations with Azerbaijan. The fact that the Obama administration has urged the Turkish-Armenia reconciliation without engaging more on Nagorno-Karabakh by encouraging Armenia to partially withdraw from the occupied Azeri territories, was perceived by Azerbaijan as a signal of Washington's heavy bias in favour of Armenia.

<sup>7</sup> OSCE Minsk Process, cit.

<sup>8</sup> Interview to Jasur Sumerinli in International Crisis Group, "Nagorno-Karabakh: Getting to a Breakthrough", *Europe Briefing*, No. 55, 7 October, 2009, <http://www.crisisgroup.org/en/regions/europe/caucasus/azerbaijan/b55-nagorno-karabakh-getting-to-a-breakthrough.aspx>.

<sup>9</sup> Nona Mikhelidze, "The Turkish-Armenian Rapprochement at the Deadlock", in *Documenti IAI*, No. 1005, 2010, <http://www.iai.it/pdf/DocIAI/iai1005.pdf>.

Indeed the U.S. policy towards the conflict has been largely influenced by the Armenian lobby in the United States. The Freedom Support Act 907a of 1992 is the best example of this influence, where the U.S. government granted Georgia and Armenia substantial financial aid and left Azerbaijan in the cold. According to the Act, Azerbaijan has to take 'demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh'.<sup>10</sup> Not only does the US hold back on assistance to Azerbaijan. In sharp contrast to its lack of assistance to other secessionist regions (e.g. in Georgia), the US continues to grant Nagorno-Karabakh \$8 million of humanitarian assistance per year.<sup>11</sup> Additionally Freedom House, an organization financed by the US government, in its report "Freedom of the Press 2009" considered Karabakh as a joint Armenian-Azerbaijani territory, while viewing South Ossetia and Abkhazia as parts of Georgia.<sup>12</sup>

Other factors have also played a role in the deterioration of diplomatic relations between the US and Azerbaijan. First, President Ilham Aliyev was not invited to the Nuclear Summit in Washington in April 2010, attended by all other regional leaders, including those of Armenia and Georgia. In response Aliyev cancelled the military exercises with the US planned in May. Second, the US signed its Strategic Partnership Chapters with Ukraine, Georgia, the Czech Republic and Poland but not with Azerbaijan (nor however with Armenia). Finally, the appointment of the new US ambassador to Baku came with several months of delay.

### 1.3 Russia's resurgence in the region

A third and final shift at the regional level is the resurgence of Russia in the South Caucasus. Moscow has deep-rooted interests in the region and considers itself as the only great power there; it opposes NATO's expansion to its southern borders and seeks to deny the West access to Central Asia's energy resources. Both of the above-mentioned factors - the failed OSCE mediation process and the deterioration of US-Azeri relations following the attempted Turkish-Armenian rapprochement - have created a new political vacuum in the region, that Russia has successfully filled.

Since the Georgian-Russian war in 2008, Russia has emerged as an indisputable key-holder of regional peace. The Russian recognition of independence of Abkhazia and South Ossetia brought to the fore the limitations of Western policies in what the Kremlin views as its sphere of influence. Not only in the run-up to the war, but also in the months and years preceding it, the response of the West to Russia has been firm in rhetoric but compromising in reality. The August 2008 war may be viewed as the culminating moment, whereby the West signalled to Moscow its inability to counteract it in the regional context.

<sup>10</sup> Section 907 of the *Freedom Support Act* (Public Law 102-511), Washington, 24 October 1992, available at <http://www.c-r.org/our-work/accord/nagorny-karabakh/keytexts8.php>.

<sup>11</sup> Alman Mir-Ismaïl, "US-Azerbaijani Relations Cooling", *Eurasia Daily Monitor*, Vol. 7, No. 6, Jan. 2010, [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews\[tt\\_news\]=35899&tx\\_ttnews\[backPid\]=27&cHash=d1ea8141ab](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=35899&tx_ttnews[backPid]=27&cHash=d1ea8141ab).

<sup>12</sup> See Armenia/Azerbaijan in the Freedom House *Freedom of the Press Index*, available at <http://www.freedomhouse.org/template.cfm?page=251&year=2009>.

Indeed the Kremlin has maintained control over the Nagorno-Karabakh peace process. The ineffectiveness of the OSCE Minsk Group, in which Moscow takes part, was used by Russia in the aftermath of the August 2008 war to come up with an initiative of its own: the “Declaration between Azerbaijan, Armenia and the Russian Federation”. Without proposing a specific approach, this initiative seemed more aimed at preserving Russian influence on Armenia and extending it further on Azerbaijan than at promoting conflict resolution.<sup>13</sup>

In order to ensure a continuation of the *status quo* and prevent Azerbaijan from embarking on a military adventure to re-conquer Nagorno-Karabakh, Moscow has consolidated its power over Armenia. The latter is protected by the Russia-Armenia Treaty of Friendship, Cooperation and Mutual Assistance signed in 1997, which foresees mutual military support if either state is attacked by a third country. Furthermore, Armenia is a member of the Russian-dominated Collective Security Treaty Organization (CSTO), which aims at defending its member states<sup>14</sup> against foreign military aggression. Besides, in October 2008 the Russian Duma amended the 1996 Law on Defence allowing Moscow to use military forces abroad for the defence of Russian soldiers and citizens. Russia maintains the 102<sup>nd</sup> Military Base with around 5,000 Soldiers in Gyumri (Armenia). This presence was cemented by the agreement signed by Armenia and Russia this year to prolong the lease on the above-mentioned military base until 2044.

Russia has also tightened its hold over Azerbaijan, by manoeuvring in the energy field. Moscow seeks to obtain a monopoly over Caspian energy purchases and all existing or planned routes as well as to block efforts to build the Nabucco gas pipeline. The energy-producing Azerbaijan, with the help of Western actors, has instead tried to diversify its energy flows. If Russia manages to make a deal with Azerbaijan and eventually with Turkey over the export of natural gas, it will have gained control over all transit routes from the Caspian Sea to the West.

## 2. Azerbaijan-Russia-Turkey energy triangle

As anticipated above, the Nagorno-Karabakh peace process is evolving because of major geopolitical shifts in the region, particularly in the realm of energy. In 1994 Azerbaijan signed the “contract of the century” allowing Western actors, in particular a British Petroleum (BP)-led oil consortium, to enter in the region in order to explore three offshore fields in the Caspian Sea. All of the three main pipelines (Baku-Tbilisi-Ceyhan, Baku-Tbilisi-Supsa and Baku-Tbilisi-Erzurum), which run from the Caspian basin to Turkey bypassing Russia, have been largely supported by the United States.

However, Azerbaijan has now signalled to the West that it can consider other options for its gas exports, including Russia. Indeed in 2009 a series of gas agreements were

<sup>13</sup> The declaration does not contain any specific approach but only underlines the need for negotiations between the confronted parties to continue. Point 1 of the document specifies that political settlement should be based on the principles and norms of international law; point 2 reaffirms support for the ongoing mediation by the OSCE Minsk Group and for further discussions on the Madrid principles.

<sup>14</sup> The member states of CSTO are Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan.

signed: the White Stream project from Azerbaijan across the Black Sea via Georgia to Romania, the agreement between President Aliyev and his Bulgarian counterpart Giorgi Purvanov on Azeri compressed natural gas (CNG) transportation to Bulgaria and the agreement on Azeri gas sales to Iran. Additionally in October 2009 Gazprom signed an agreement with Azerbaijan's State Oil Company (SOCAR) on the export of 500 million cubic meters of Azerbaijani gas to Russia through the Baku-Novo Filya pipeline (it also proposed to buy the whole volume of Azeri gas). The volume of gas was clearly not high but it has been raised twice already.<sup>15</sup> Furthermore, the deal marked a precedent: for the first time, Azerbaijan turned from an importer of Russian gas into an exporter. If Baku persists with this policy line, the volume of gas available for Nabucco will reduce further, which could seriously undermine the chances for the project's realization.

Frustrated by the peace process, Azerbaijan might turn more decisively towards Moscow, seeking its deeper engagement in the peace process. Baku could thus opt for a more pronounced pro-Russian orientation by supplying Russia with the whole volume of its gas resources (from the Shah Deniz field Stage 2) in exchange for the Kremlin's support in the dispute with Armenia. This would include a guaranteed Russian neutrality in the case of an Azeri attempt to re-conquest the lost territories and/or Russian diplomacy to push Armenia into a compromise. However, the deal cannot be made without Turkey's involvement, which cannot be excluded also in view of Ankara's warming relations with Moscow.

Relations between Azerbaijan and Turkey has deteriorated as a result of the Turkey-Armenia rapprochement. However, Ankara backtracked by making ratification of the protocols conditional on progress in Nagorno Karabakh. In practice it decided not to damage its relations with Baku for the sake of reconciliation with Armenia. Turkey also reached a gas deal with Azerbaijan<sup>16</sup> fixing the price and volumes of Caspian gas to be transported to and through Turkey.<sup>17</sup> The relationship has been further strengthened by a new Azeri-Turkish deal on a Strategic Partnership and Mutual Assistance signed in August 2010 and envisaging military cooperation.<sup>18</sup>

As for Turkey-Russia relations, in 2010 Russia became Turkey's largest trading partner with a trade volume amounting to \$40 billion, mostly stemming from Turkish energy imports.<sup>19</sup> Moscow has tried to deepen its energy cooperation with Ankara further in order to transport its gas to Western markets through Turkey. In this context, in early 2010 Prime Minister Vladimir Putin invited his Turkish counterpart Recep Tayyip

<sup>15</sup> Rufat Abbasov, "Azerbaijan supplies over 557m cubic meters of gas to Russia", *News.Az*, 8 September 2010, <http://www.news.az/articles/22424>.

<sup>16</sup> Under the agreement signed in 2002 between Azerbaijan and Turkey Baku sells its gas to Turkey at \$120 per one thousand cubic meters, which constituted one-third of market prices.

<sup>17</sup> "Turkish Minister Says Gas Deal Reached With Azerbaijan", *Radio Free Europe/Radio Liberty*, 27 April 2010,

[http://www.rferl.org/content/Turkish\\_Minister\\_Says\\_Gas\\_Deal\\_Reached\\_With\\_Azerbaijan/2026266.html](http://www.rferl.org/content/Turkish_Minister_Says_Gas_Deal_Reached_With_Azerbaijan/2026266.html).

<sup>18</sup> Lamiya Adilgizi, "Turkey: Azerbaijani-Turkish deal not against any country", *Today's Zaman*, 28 August 2010, <http://www.todayszaman.com/tz-web/news-220295-102-turkey-azerbaijani-turkish-deal-not-against-any-country.html>.

<sup>19</sup> Turkey is dependent on Russia for 70% of its energy imports. See "Turkish-Russian ties evolve into strategic partnership", *Today's Zaman*, 13 May 2010, <http://www.todayszaman.com/tz-web/news-210092-turkish-russian-ties-evolve-into-strategic-partnership.html>.

Erdoğan to sign a trilateral agreement together with Italy on common pipeline projects. He has fully endorsed the Blue Stream 2 pipeline connecting the Black Sea port of Samsun with the terminal of Ceyhan.<sup>20</sup>

Deeper energy relations between Azerbaijan and Russia on the one hand and those between Russia and Turkey on the other can pave the way for a geopolitical/economic triangle, which was heralded by the launch of the “Caucasus Stability and Cooperation Pact” (CSCP) by Erdoğan in the aftermath of the Georgian-Russian August 2008. The main goal of the pact is conflict resolution in the South Caucasus through developed regional cooperation (including on energy issues) by bringing together all three South Caucasian countries, as well as Turkey and Russia. The pact keeps Western actors at arm’s length in the South Caucasus, as it excludes both the EU and the US.

## Conclusion

A new regional scenario - marked by an Azerbaijan-Russia-Turkey energy triangle - could change the destiny of Nagorno-Karabakh by inducing Moscow to reengage more actively in the peace process. However, the prize Baku would pay - give Russia full control over its gas resources in return for its lost territories - seems to be high. It thus remains a possible, but unlikely scenario. Reducing the likelihood of this scenario further is the fact that Aliyev’s autocratic regime might still be ultimately interested in maintaining the *status quo*. The president has repeated his threat to restore Azerbaijan’s territorial integrity by military means for years but he has never gone beyond rhetoric, knowing that this may lead to direct military confrontation with Russia. There is reason to believe that this calculation still holds.

Furthermore, Nagorno-Karabakh has been used by local authorities for the manipulation of internal politics i.e. removing domestic focus on problems such as poverty, human rights violations, corruption, absence of rule of law and many other shortcomings. More probably therefore, Aliyev will continue to opt for a multidimensional energy policy, including strengthened cooperation with both Russia and Turkey alongside the US and EU. Thus, the complete deterioration of US-Azeri relations is unlikely as Baku will continue to need the US to maintain a balanced policy towards Russia in order to ensure the diversification of its energy resources and to avoid complete dependence on the Russian gas giant Gazprom. For these reasons the *status quo* in the conflict appears to be the most likely scenario in the near future, even if the precarious ceasefire in Nagorno-Karabakh continues to make the regional situation highly volatile.

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<sup>20</sup> Saban Kardas, “Erdogan Fosters Nuclear Cooperation with Russia”, *Eurasian Daily Monitor*, Vol. 7, No. 10, 15 January 2010, [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews\[tt\\_news\]=35919&tx\\_ttnews\[backPid\]=484&no\\_cache=1](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=35919&tx_ttnews[backPid]=484&no_cache=1).





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