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## Transcript

# Foreign Policy Challenges for Azerbaijan

HE Ilham Aliyev, President, Republic of Azerbaijan

Chair: Sir Brian Fall

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### **Sir Brian Fall:**

It is my privilege to welcome back to Chatham House His Excellency, the President of Azerbaijan, Ilham Aliyev. Very early on in his first period of presidency (I think just over a year into his first term) he came here to Chatham House, again on the 13<sup>th</sup> of the month – the figure must be a lucky one for Chatham House; I don't know, Mr President, whether you would agree with that from your point of view. Anyhow he's back and we are very glad to have him back. He is going to talk about the challenges of the foreign policy of Azerbaijan.

I think if somebody in Azerbaijan said that there is too much of this foreign policy business, and why don't we just concentrate on having good relations with our neighbours, you would still have a few challenges in foreign policy. But you do that and you have a much wider reach as well – Western Europe, transatlantic, major international organisations, the Greater Middle East, across Central Asia and beyond – so there is really a sense of Baku as a hub. We are very grateful to you for coming and telling us about the view from the hub.

### **HE Ilham Aliyev:**

Thank you very much, ladies and gentlemen. Thank you for your invitation. It is a big honour to be here again. I remember almost five years ago I was in Chatham House. At that time I was most probably telling you about the plans, because it was only a year after I was the first time elected. Now after five years we can talk already about achievements. Still, a lot is to be done in the country; but the last five years were very important for the development of our country, for our future. These years proved that Azerbaijan can successfully develop as an independent country; can protect its national interests; can establish very fruitful relations with partner countries. Particularly this year, a year of financial and economic crisis, again shows that our economy is sustainable and diversified.

During the last five years we concentrated mainly on the challenges inside the country and the resolution of issues relating to foreign policy. But of course without a strong economy, without political stability and unity of the society, it will be very difficult to achieve full independence in the foreign policy area. Therefore we concentrated primarily on economic reforms and economic development, and on energy policy, which is a huge part of our economy.

The results of these efforts can be illustrated by some figures of achievement. During the last five years our economy grew 2.6 times. For the last three

years Azerbaijan was the fastest-growing economy of the world. Industrial production grew 2.5 times. Our budget spending increased 12 times. The level of poverty decreased 4 times. During the last five years a lot was done in the areas of education and health care, and construction of 1,600 schools in Azerbaijan is an illustration of our agenda.

Economic development also helped us to develop our regions – not only the capital but the regions of Azerbaijan now enjoy rapid growth. Sometimes our economic performance is linked to oil and oil prices, but this is not exactly the case because oil is produced by other countries – some of our neighbours produce in much bigger quantities. At the same time, if you look at the economic development of our regions, we will see the same picture although oil is not produced in our regions (oil is produced only in Baku, in the Caspian).

Therefore diversification of the economy supports the private entrepreneurship and economic reforms allow us not to depend solely on oil and gas. That was one of the major objectives: to reduce this dependence and to create a strong economy which can be sustainable in periods of crisis and low oil price or even reduction of production.

Social issues were also seriously addressed. As I mentioned, reduction of poverty is one of the biggest achievements in Azerbaijan. It also shows that the oil wealth is being distributed in a just manner. Otherwise the amount of poor people would not decrease but increase. We know also the experiences in some oil-producing countries.

All these created a very good environment in Azerbaijan. Azerbaijan's reforms also were noticed by the World Bank, which ranked Azerbaijan the top reformer, the number-one reformer in the world in 2008, in the Doing Business programme. This is also a very clear indicator of our agenda.

Political and economic reforms in Azerbaijan are conducted in parallel. I think this is the only possible format to reform our country. Our country eighteen years ago was part of the Soviet Union with zero market economy. Today 85 per cent of our economy is market economy. We did not have any political system ever in our history before independence. Today the political system is developing.

Therefore these domestic issues which we concentrated on allowed us to feel ourselves pretty confident in our region and conduct independent policy. If you do not depend on anyone then you can conduct independent policy, policy which is in the interest of your nation and policy which is aimed at

cooperation, not confrontation; aimed at partnership, and normal relations with neighbours and traditional partners.

Energy policy was an important part of our vision and most probably will continue to play an important role. Already not only in Azerbaijan but around Azerbaijan, oil and gas projects which were implemented by us today is a solid foundation for future energy developments in the world. Azerbaijan was the first country which invited foreign investors to the Caspian Sea and our major investor and strategic partner, BP, is a leader in the most important projects for us and for regional development: oil and gas fields which are producing more and more; pipelines which were created as a result of this investment. A good investment climate in Azerbaijan and attraction of investment in the non-energy sector – all that was generated by the wisdom of our great leader Heydar Aliyev, who in 1994 initiated the signing of the contract of the century.

Today we have a diversified supply infrastructure. We have seven pipelines – three for oil, four for gas – which can transport our oil and gas in various directions. Billions of dollars were invested in production. Production of oil this year will be close to 1 million barrels; gas, close to 25-27 billion cubic metres. Reserves which have been discovered will allow Azerbaijan to be a reliable supplier of gas to international markets for at least 100 years. New investments, including the memorandum of understanding between BP and SOCAR which was signed this morning, shows how attractive Azerbaijan is even in the year of crisis, even when the oil price went down. Still Azerbaijan is attractive because we have a very predictable situation. We have political stability plus all the investments are protected. Never in our history, since the beginning of energy cooperation with oil companies, have we had any kind of legal procedure or dispute or attempt to renegotiated. We are very committed to contractual terms and all the major oil contracts are signed by the president after ratification by parliament as a law, so no one can change anything.

This is confidence and this confidence helps us to attract investments in other areas. Countries like Azerbaijan – relatively new as independent – we must continue to build confidence and to create a good political and economic environment in order to attract investments.

The reality is BTC (Baku-Tbilisi-Ceyhan), which was once considered a fantasy or dream, is a reality. For almost three years BTC has successfully been in operation, delivering huge volumes of oil not only from Azerbaijan – now when the pipeline is in operation, Kazakhstan oil has joined. Definitely in the coming years the volume will be only growing. That most probably will

definitely lead to expansion of the pipeline, up to 1.6 (maybe 1.8) million barrels a day, or even construction of a new line. Azerbaijan already became a transit country for our neighbours across the Caspian, so now when we have discovered the huge gas fields and started already to export to neighbouring countries, the importance of this route is growing. Any possible future extensions and diversification projects for Europe are based on existing infrastructure created in Azerbaijan and taking our gas to international markets.

Our advantage is that we are not limited by only one supply route. We have four gas pipelines which aim in various directions: Baku-Tbilisi-Erzurum, which can be extended further to Europe; a pipeline which connects us with Georgia; a pipeline which connects us with Russia and also with Iran. Almost all of them are now in operation. Azerbaijan also proved itself a reliable supplier, a supplier which highly values legal commitments and always fulfils its obligations.

Energy policy today becomes more and more important. When we talk about that we cannot separate the situation in the energy market from the general political development in the region. Political development is influenced by energy issues. Sometimes issues of energy policy lead to a kind of politicisation of the process. We are against that approach. Everything must be based on national interests, on commercial terms, on free market principles, on free competition. This is our approach and I think it is the only way to approach the situation. Also, to find a balance between the interests of producers, transmitters and consumers in order to avoid the situation of any potential dictate. Dictates can be linked not only with producers but sometimes with transmitters, sometimes maybe with consumers. Therefore all the participants of the energy format must act as a team. Only in this case can we achieve success.

In the coming years I am sure that Azerbaijan will increase its energy potential. Existing potential and exploration projects which are now being implemented I am sure will lead to new discoveries in three to five years which will seriously increase our energy potential. Then our geographical location and already existing infrastructure will be important for all our partners.

We also invest a lot in transportation infrastructure, which is absolutely logical taking into account our geography. Construction of the railroad which connects Europe with Asia, which is now being financed partly by Azerbaijan, after completion will play an enormously important role in the issues of

regional cooperation and improvement of the business climate and business opportunities in our region.

We are investing a lot in infrastructure which connects us with neighbouring countries. Already today Azerbaijan became an exporter not only of oil and gas but also of electric energy, which we export to neighbouring countries.

Again I would like to mention that all these issues are interrelated and all these achievements allow us to feel ourselves pretty safe, comfortable, confident and at the same time always businesslike and always aimed at cooperation with our neighbours and partners.

The foreign policy of Azerbaijan is very clear and predictable. We are in favour of fruitful bilateral relations with all the countries, relations which are based on mutual interests, shared values, mutual respect, non-interference into each other's internal affairs, and with a spirit of partnership. This approach already proves that it leads to positive results.

Our foreign policy – again I would like to mention – is an independent foreign policy. It is not influenced by any external factors, again due to economic performance and economic independence.

Our relations with Great Britain successfully developed. This is my second official visit to your country. This morning I had very fruitful discussions with Prime Minister Brown on a variety of issues – bilateral, regional. Our efforts in peacekeeping operations – from the very first days we participate in peacekeeping operations in Iraq and Afghanistan, and we twice decided to redouble our military presence in Afghanistan as a sign of support to coalition forces. We also discussed issues related to energy policy, and to the resolution of the Armenia-Azerbaijan Nagorno-Karabakh conflict.

The United Kingdom for us is a strategic partner and very important country. It is the biggest investor in Azerbaijan and we highly value these relations. I am sure in the coming years these relations will embrace a much broader agenda – political ties, economic cooperation, cooperation in the IT sector and education. We are implementing a big programme of education of young students from Azerbaijan in the leading universities of the world. This is a special programme funded by the oil fund of Azerbaijan. Usually funds are used for strategic purposes. So far money from the oil fund was used to resettle refugees, to build a water pipeline, to take care of people who suffered from the Armenian occupation, and also for educational purposes. This shows how important it is for us. What we need now is a new skilled young people, well trained, well educated, with broad vision, with commitment to Azerbaijan – to our statehood and our future.

For us, being independent is a great value. The Azerbaijani people for centuries were deprived of that. Therefore independence for us has a very special meaning and we must work every day hard in order to strengthen this independence and in order to provide a future for future generations.

Our relations with the United Kingdom also cover issues of our partnership with the European Union. Recently Azerbaijan joined the European Union's Eastern Partnership programme. Three years ago we joined the Neighbourhood Programme of the European Union. Relations between the European Union and Azerbaijan are also very positive, very fruitful. These are relations between real partners.

Also our cooperation with NATO successfully developed. Azerbaijan is an active participant in individual partnership action plans with NATO and we will definitely continue this cooperation in the future.

One of the biggest challenges of our foreign policy – and our general challenges in front of our country – is the resolution of the conflict between Armenia and Azerbaijan. For fifteen years now we live in a situation of no war, no peace. In 1994 the ceasefire regime was established. Since that time, despite various efforts of the international community, we have not achieved a peaceful settlement. It is true that now the negotiation process is more active, more promising and has already certain results – but it is not enough to finalise the deal and to find a solution which will be based on norms and principles of international law and will restore our territorial integrity. This conflict must be resolved only on the basis of international law and the decisions of international organisations. We are very glad to see that the Armenian leadership also is ready for that. Otherwise they would not have signed the declaration in Moscow which clearly says that the conflict must be resolved based on resolutions of international organisations.

What do these resolutions say? These resolutions clearly say that Armenian forces must be withdrawn unconditionally and immediately from the occupied territories. Four resolutions of the UN Security Council were adopted in this respect. The resolution of the UN General Assembly also proves this position. The decisions of the OSCE and in particular the OSCE Lisbon Summit clearly show how this conflict must be resolved. The territorial integrity of Azerbaijan must be restored and all the occupied territories of Azerbaijan – which is 20 per cent of our territory – must be freed from Armenian occupation. A million refugees from Azerbaijan who were subject to the ethnic cleansing policy of Armenia have a right to return to their land.

We offer always – we are saying during all the period of negotiations, in the 1990s and now – that we are ready to grant the highest possible level of autonomy for those who live in Nagorno-Karabakh, within the framework of the sovereign Azerbaijani state. This is the only possible approach and I think that if the Armenian side shows political will, the conflict will be resolved.

At the same time we also understand some concerns of Armenia about a land connection between Armenia and Nagorno-Karabakh, about security guarantees, about peacekeeping operations. We are ready in a constructive manner to address these issues. Some of them are already agreed and we need to continue this process.

Peace in the region will bring a lot of advantages to all of us. Azerbaijan will restore its territorial integrity and our people will have an opportunity to live in their own country, in the places where their ancestors lived. Armenia will put an end to the occupation policy and to the image of a country that occupies the sovereign territory of another country. At the same time Nagorno-Karabakh, which is situated inside Azerbaijan and never had any connections with Armenia, will have unimpeded access to Armenia by the corridor. All the communications in the region will be opened. Then full-scale regional cooperation can happen. All the sides and all the countries of the Caucasus will only benefit from that. The situation of no war, no peace, may send a wrong message that it is frozen – but it is not frozen. Peace is being provided by the Armenian army and the Azerbaijani army. We do not have any kind of peacekeepers. Peace is very fragile. Therefore this is an opportunity now to move forward and to agree on what must be agreed anyway, because the policy of occupation will never be converted into a kind of recognition. Nagorno-Karabakh will never be recognised as an independent country. It is absolutely ridiculous to expect that. A territory inside the sovereign Azerbaijani state, with a population of 60,000 people, cannot be independent. The fact that it was not recognised so far, by no country – including Armenia – is a clear indication that independence is not possible. Azerbaijan will never agree to such a peace plan that would predetermine the independent status of Nagorno-Karabakh. This is completely out of question. The proposals of the OSCE Minsk Group, which we are now discussing, clearly indicate that there is no mechanism of secession or independence.

What can be achieved is peace and peaceful coexistence between the Armenian and Azerbaijani communities of Nagorno-Karabakh. We lived together in the past in peace and we will anyway live side by side. We cannot change geography. Therefore we need to find a solution to this important



international issue. How important it is to the world is also reflected in the attention of the countries who are helping us to find a solution.

I will conclude my introduction to have some time for discussion. I would like once again to thank you for the invitation. I am very glad to be here again and to have an opportunity to express my views. For you, I think it is also important to hear important issues related to our region from the source. Thank you very much.