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# THE EU AND AZERBAIJAN: BEYOND OIL

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## SUMMARY

Azerbaijan poses the greatest challenge to the EU's attempts to promote democracy in the Eastern Partnership region. The regime of President Ilham Aliyev has almost eliminated political opposition through a combination of state repression and election manipulation and has harassed independent media. But the EU has struggled to go beyond co-operation on energy issues and put more pressure on the regime to liberalise. Azerbaijan has no aspirations to join the EU, which limits the EU's leverage. However, in the medium term the Aliyev regime is more vulnerable than it seems: unless it reforms and diversifies, Azerbaijan's economic model is unsustainable.

The EU should revise its current condition-free approach towards Baku and follow a "hug and hold" strategy – that is, hug Azerbaijan but also hold it to its commitments to reform. The EU should support transfer of know-how, exchange programmes and capacity-building in the public sector while re-directing more political and financial support to grassroots groups, SMEs and independent media who can put more pressure on the regime. Unless the EU takes this bolder approach towards Azerbaijan, it risks finding itself in the same position it was in the southern neighbourhood before the Arab Awakening: that of a quiet supporter of autocrats.

The European Union has been partly successful and wholly incoherent in promoting democracy in its neighbourhood. Europeans paid lip service to democracy in North Africa and the Middle East, but for years they downplayed values when dealing with the region's autocratic regimes. Last year's democratic uprisings in North Africa and the Middle East – which had little to do with the EU's democracy assistance or political conditionality – pushed several of the region's authoritarian leaders from power. But in the EU's eastern neighbourhood, democracy is in retreat: none of the six Eastern Partnership countries is fully democratic and, apart from in Moldova, democracy scores in the region have been worsening.<sup>1</sup> Clearly, EU efforts to promote democracy are failing to work as intended.

Nowhere in the eastern neighbourhood is this challenge more evident than in Azerbaijan. The upcoming Eurovision Song Contest, which takes place in Baku on 22–26 May, has drawn attention to the many problems and paradoxes this country presents for the EU's efforts to promote democracy. The regime of President Ilham Aliyev harbours no aspirations to join the EU and is confident enough to ignore most of the EU's pleas to fix the country's democracy

<sup>1</sup> Georgia, Moldova and Ukraine are described as "hybrid regimes", and Armenia as a "semi-consolidated authoritarian regimes". Belarus and Azerbaijan joined the group of "consolidated authoritarian regimes". See Freedom House, *Nations in Transit 2011*, available at <http://www.freedomhouse.org/report/nations-transit/nations-transit-2011>. See also Nicu Popescu and Andrew Wilson, *Turning Presence into Power: the EU in its eastern neighbourhood*, European Council on Foreign Relations, May 2011, available at [http://ecfr.eu/content/entry/turning\\_presence\\_into\\_power\\_europe\\_in\\_its\\_eastern\\_neighbourhood](http://ecfr.eu/content/entry/turning_presence_into_power_europe_in_its_eastern_neighbourhood).

deficit. He has almost eliminated political opposition through a combination of state repression and election manipulation, and has harassed independent media. In the run-up to the Eurovision Song Contest, hundreds of Baku citizens were forcibly evicted from their homes, which were demolished to build the Crystal Hall where the competition will take place.<sup>2</sup>

Azerbaijan has often used its difficult geographical and geopolitical context as an excuse to tighten the political screws. The country is blessed with hydrocarbon riches but cursed by its location in what is probably the most combustible region in Europe. To the north, it borders Russia, which, apart from having a radar station on Azerbaijan's territory, is also one of the main sources of the radical Islamist groups that are currently operating in the country. To the east, Armenia is still technically at war with Azerbaijan over the disputed region of Nagorno-Karabakh; Iran, in which 20–30 million Azerbaijanis continue to live, is also a difficult neighbour. Azerbaijan's only two "good neighbours" are Georgia and especially Turkey.

The EU is now trying to put democracy back at the heart of its foreign policy. But while it has taken a tough approach to Belarus – another systematic abuser of human rights in the Eastern Partnership region – it seems more concerned about its own energy interests and security in Azerbaijan than for the state of democracy there. Although they have been vocal about democracy in Azerbaijan, individual member states and the EU institutions have in reality co-operated with the regime in Baku without imposing conditionality. This conditionality-free approach has brought Europe few benefits and continues to discredit the EU in the eyes of Azerbaijani society. Without adjusting its relations with this oil-rich country, the EU risks repeating the same blunders it has made in its southern neighbourhood in the past.

## A more confident – but vulnerable – Baku

In the early years after its independence in 1991, Azerbaijan was as poor as its other two Caucasus neighbours Armenia and Georgia.<sup>3</sup> But since the mid-1990s, the government has gradually managed to absorb the shocks of transition and the war with Armenia, restarted economic growth and expanded the society's welfare. This was chiefly thanks to the country's rich oil and gas reserves, new contracts with Western energy companies and high oil prices. As a result, Azerbaijan's fortunes, especially in the last 10 years, changed impressively: the country's poverty rate dropped from a staggering 45 percent in 2003 to nine percent in 2010, and its real GDP increased threefold between 2003 and 2008, recording unprecedented growth of 34 percent in 2006.<sup>4</sup>

However, as the country has progressed in economic terms, it has regressed in terms of corruption and democratic governance. The influx of oil money has helped the regime of Ilham Aliyev – who succeeded his father Heydar Aliyev in 2003 in what has been the first dynastical transfer of power in the former Soviet republic – to solidify his own position and strengthen and feed the system of political patronage he inherited. Ilham Aliyev further consolidated power in the presidency and steered Azerbaijan towards a full-fledged autocracy. There are at least 12 political prisoners in Azerbaijan today and the political opposition has been almost eliminated. The main television channels are controlled by the government and journalists are regularly threatened. Investigations into the deaths of two opposition journalists who died in 2005 and 2011 have produced no results and independent media are regularly harassed.<sup>5</sup>

When Azerbaijan won the right to host this year's Eurovision Song Contest, many in Europe hoped that it would prompt the Aliyev government to moderate its actions in order to avoid tarnishing its international prestige. The hopes were not entirely ungrounded: a year before the competition was to take place, the journalist Eynulla Fatullayev was released from jail.<sup>6</sup> The blogger Jabbar Savalan also received a presidential pardon in December 2011. But the government has been taking one step forward and two steps back: despite progress on these high-profile cases, the overall human rights situation is worsening. Opposition activist Elnur Mecdli was pardoned a week before the Eurovision Song Contest but 12 others who remain in prison have gone on hunger strike. Two journalists have remained in detention since March this year and have been prevented from communicating with their lawyers. Khadija Ismayilova, an investigative journalist, has been the target of a smear campaign since she published articles unearthing corruption at the heart of the president's family. The Baku authorities continue to deny applications of the opposition to hold rallies in the city centre on a systematic basis.

However, in the medium term, the regime is more vulnerable than it seems. The volume of oil extracted in Azerbaijan peaked in 2010 and is set to decline. In 2011, the country recorded the lowest economic growth among all the former Soviet republics.<sup>7</sup> Although it lived through 10 boom years, the government has failed to translate the growth figures into corresponding social indicators: for example, in 2008, when GDP grew at a rate of 10 percent, inflation reached 21 percent. Moreover, the government has paid little attention to rising social injustice. Because Azerbaijan's political and economic system is based on rewards for

<sup>2</sup> See Human Rights Watch, "They Took Everything From Me", 29 February 2012, available at <http://www.hrw.org/reports/2012/02/29/they-took-everything-me-0>.

<sup>3</sup> See, for example, *Statistical Handbook 1995 – States of the Former USSR*, World Bank, available at [http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/1995/12/01/000009265\\_397031123523/Rendered/PDF/multiopage.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/1W3P/IB/1995/12/01/000009265_397031123523/Rendered/PDF/multiopage.pdf).

<sup>4</sup> Gubad Ibadoglu, "Azerbaijan's Economic Model and Its Development Since Independence", *Azeri Report*, available at [http://azerireport.com/index.php?option=com\\_content&task=view&id=2981](http://azerireport.com/index.php?option=com_content&task=view&id=2981).

<sup>5</sup> Elmar Huseynov, the founder and editor of the opposition weekly news magazine *Monitor*, was gunned down in his apartment building in Baku in March 2005. Rafiq Taghi, a journalist for *Sanat* newspaper, was assassinated in November 2011.

<sup>6</sup> Fatullayev was imprisoned in 2007 on charges of defamation, terrorism, incitement of ethnic hatred, drug possession and tax evasion, which were widely believed to be fabricated and motivated by Fatullayev's journalism. He was released almost a year after the ruling of the European Court of Human Rights that he should be released.

<sup>7</sup> In 2010, Azerbaijan produced 51 million tons of oil; in 2011, it produced five million tons less. In 2012, production is expected to reach 46 million tons. Azerbaijan's GDP growth in 2011 amounted to 0.1 percent. See Centre for Economic and Social Development, *Decline After Speedy Growth*, 23 April 2012, available at <http://cesd.az/new/2012/04/decline-after-speedy-growth/>.

loyalty rather than free political and market completion, ruling elites, bureaucrats and their associates have become almost exclusive beneficiaries of the country's oil revenues. Azerbaijan remains as corrupt as Russia or Uganda and ranks worse than neighbouring Georgia or Armenia.<sup>8</sup>

The government has also made little effort to diversify the economy away from dependence on hydrocarbons; in fact, Azerbaijan's budget increasingly relies on transfers from the state oil fund (SOFAZ) rather than taxes: it is expected that the share of transfers from SOFAZ in the total state budget will reach 60 percent in 2012.<sup>9</sup> The government hopes to generate more revenue from increased gas exports, thanks to its reserves and potentially by becoming the transit hub for Central Asia's gas. However, experts suggest the income will not suffice to compensate for the decline of oil revenues.<sup>10</sup> In short, unless it reforms and diversifies, Azerbaijan's economic model is unsustainable.

The regime has thus far managed to avoid dangerous levels of instability. Oil revenue has enabled it to placate society through social spending. Moreover, the possibility of losing one's job has discouraged many from participating in anti-regime protests; others vote with their feet and leave to work in Russia.<sup>11</sup> Extreme poverty is often avoided through extended family and friends. Moreover, the oil revenue which is fuelling a construction boom in Baku has brought new employment opportunities for thousands of people. Usually, this means long working hours and a salary just enough to make their ends meet – which leaves little time or energy to protest. The opposition is currently united in the broad coalition called Public Chamber, but in the absence of freedom of assembly and lack of financial resources it has so far failed to reach beyond its core supporters.

However, the government's heavy-handed tactics may eventually backfire. By clamping down on independent media and repressing the secular opposition, the regime has closed most of the usual channels for expressing dissent. Azerbaijan is traditionally seen as a secular society, but the country has in the past couple of years seen a mini-revival of Islam. Some young people are now more attracted to radical Islam which they see as a way to voice their disapproval of the regime.<sup>12</sup> The government's response has been to suppress more militant Islamist groups through occasional targeted attacks while tolerating meetings of moderate Islamists in downtown Baku more than those of the secular

opposition. But this approach, together with the worsening quality of education, the unresolved conflict over Nagorno-Karabakh and the retreat of secularism in Azerbaijan's close ally Turkey may "end up inadvertently bolstering Islamists" and creating a considerable political problem in the medium or long term.<sup>13</sup>

## The EU: present but timid

The regime's increasingly authoritarian tendencies have had little effect on the EU's approach. Europe's main interest in the region is stability of energy supplies and security. The Aliyev regime has allowed Western energy companies to explore its hydrocarbon riches and supported energy transit projects such as the Baku–Tbilisi–Ceyhan pipeline that deliver oil to the West rather than to Russia. Thus, seen as an indispensable and mostly co-operative partner in the EU's energy security plans, Baku has managed to temper those voices in the EU that were more critical of the regime and instead steered co-operation towards the sectors that are most beneficial for the current elite.

Today, the EU's assistance to Azerbaijan amounts to almost €50 million – more than twice as much as in 2010.<sup>14</sup> Political relations are also booming: in 2011–2012, top EU leaders including Commission President José Manuel Barroso, High Representative Catherine Ashton and European Enlargement Commissioner Stefan Füle all visited Baku. During his trip to Brussels last year, President Aliyev also held a meeting with European Council President Herman van Rompuy. The EU and Azerbaijan are also negotiating a new Association Agreement – an upgrade from the Partnership and Cooperation Agreement which has been in force since 1999. Earlier this year, the EU launched talks with Baku (and Yerevan) on visa facilitation and the readmission of irregular migrants in the EU. However, Baku continues to cherry-pick only those projects that suit it best, such as those in the field of energy, and avoids those that are seen as a threat to the regime, such as democracy and human rights.<sup>15</sup>

Some member states such as France, Italy, Germany and the UK have big economic interests in Azerbaijan, but most of them – including those with business ties – tend to avoid publicly criticising Azerbaijan. During his first visit to Baku last year and in meetings with the country's leadership, Polish President Bronisław Komorowski offered no remarks on this topic. On the other hand, Germany has been in the firing line of Azerbaijan's state-owned media after a series of articles on violations of political and property rights

<sup>8</sup> Transparency International, *Corruption Perceptions Index 2011*, available at <http://cpi.transparency.org/cpi2011/results/#CountryResults>.

<sup>9</sup> "SOFAZ announces total revenues for 12 years", Centre for Economic and Social Development, 7 May 2012, available at <http://cesd.az/new/2012/05/sofaz-announces-total-revenues-for-12-years/>.

<sup>10</sup> Author interview in Baku, 10 April 2012.

<sup>11</sup> According to some estimates, two million out of the country's population of 9.5 million currently work in Russia. See, for example, "Vopros: Osobennosti azerbaydzhanskoi migratsii i emigratsii", AZE.az, 17 June 2011, available at [http://aze.az/news\\_opros\\_osobennosti\\_azerbay\\_60571.html](http://aze.az/news_opros_osobennosti_azerbay_60571.html).

<sup>12</sup> Arif Yunusov, "Islamic Palette of Azerbaijan", Institute of Peace and Democracy and the Black Sea Trust Fund for Regional Cooperation, Baku, 2012. Radical groups are often sponsored by the neighbouring Iran- or Dagestan-based organisations as well as those in Saudi Arabia. See also *Independent Islam and the State*, International Crisis Group, March 2008, available at [http://www.crisisgroup.org/~media/Files/europe/191\\_azerbaijan\\_independent\\_islam\\_and\\_the\\_state.pdf](http://www.crisisgroup.org/~/media/Files/europe/191_azerbaijan_independent_islam_and_the_state.pdf).

<sup>13</sup> Eldar Mamedov, "Azerbaijan: Evaluating Islamists' Strength in Baku", Eurasianet.org, 9 August 2011, available at <http://www.eurasianet.org/node/64018>.

<sup>14</sup> In 2010, the EU allocated €26 million for Azerbaijan but, due to lack of absorption, only €7 million was allocated in reality. See *Implementation of the Eastern Partnership: Report to the meeting of Foreign Affairs Ministers*, 13 December 2010, available at [http://eeas.europa.eu/eastern/docs/eap\\_meeting\\_foreign\\_affairs\\_131210\\_en.pdf](http://eeas.europa.eu/eastern/docs/eap_meeting_foreign_affairs_131210_en.pdf).

<sup>15</sup> EU–Azerbaijan co-operation is guided by the mutually agreed Action Plan. The current one expired on 31 December 2011 but both sides agreed on an open-ended extension until the Association Agreement is signed.

appeared in the German media.<sup>16</sup> German parliamentarian Christoph Strässer was denied a visa to investigate the issue of political prisoners in Azerbaijan in his role as Council of Europe rapporteur.<sup>17</sup> In general, however, the EU has been timid. “I’ve never felt the EU’s persistence on issues of democracy, apart from a few statements”, says one Baku-based expert.<sup>18</sup>

There is also little co-ordination between member states and various branches of the European Commission. In fact, the EU institutions have often been as incoherent in their approach to Azerbaijan as have member states. During their visits to Baku last year, Barroso and Energy Commissioner Günther Oettinger met only with government officials, not the opposition or civic activists. This not only pleased the government in Baku but also diluted the criticism of the regime voiced by Füle, Ashton and European Parliament President Jerzy Buzek during their visits to Azerbaijan (all met with opposition or local activists).

The lack of a more coherent EU approach makes it possible for Baku to ignore criticism and pursue good relations with “friendly” member states while ignoring or publicly smearing those officials and member states who dare to criticise Azerbaijan’s democracy deficit. As a result, authoritarian consolidation in Baku has not affected co-operation with Brussels. The EU has rejected calls by some Azerbaijani activists for political or economic sanctions on the regime. According to a Baku-based European diplomat, “sanctions will not work in Azerbaijan” because “the EU has no leverage in this country” – a view widely shared among European officials. “We are all queuing to meet Aliyev”, says another diplomat. “Why would we impose sanctions on him?”

This “lack of EU leverage” narrative – which one also hears from Azerbaijani officials – seems to have become a self-fulfilling prophecy. Although there are more political prisoners in Azerbaijan than in any other Eastern Partnership country, including Belarus, the EU has not seriously considered the possibility of imposing visa bans or targeted economic sanctions on those officials involved in human rights abuses, mostly due to fears that this would jeopardise co-operation with the Baku government on other issues such as energy or security. In short, despite the EU’s rhetoric and attempt by some officials including Commissioner Füle to put more pressure on the government to soften the attitude towards its opponents, the importance to the EU of Azerbaijan’s energy resources and fears of another flare-up in Nagorno-Karabakh have pushed human rights from the EU’s top agenda with Baku, and its co-operation with Azerbaijan continues as a conditionality-free dialogue.

<sup>16</sup> Following a series of articles in the German media on Azerbaijan’s democracy deficit and forced evictions in the run-up to the Eurovision Song Contest, the state-owned newspaper *Yeni Azerbaijan* published a story in which pictures of German and Azerbaijani politicians critical of President Aliyev were placed next to those of Adolf Hitler. See “Diplomatik sifariş: müxalifət, “Eurovision”a hazır ol!” *Yeni Azerbaijan*, 27 April 2012, available at <http://www.yeniazərbaycan.com/news/15639.html>.

<sup>17</sup> He was later invited by the Azerbaijani government to visit Baku to discuss the definition of political prisoners, which he refused.

<sup>18</sup> Unless otherwise stated, quotes come from authors’ interviews in Baku and Brussels in March–April 2012.

## Few conditions, few results

But even this approach has brought limited results. Much EU assistance focuses on administrative reform and co-operation in the energy sector but has yet to bear fruit. Modernisation and diversification of Azerbaijan’s economy is unthinkable without World Trade Organization (WTO) membership. But Azerbaijan is no closer to joining the WTO than it was a few years ago – in fact, Baku is still under-using many of the quotas it was allocated under the EU’s generalised system of preferences.<sup>19</sup>

While co-operation in the energy sector works well at the level of individual EU energy giants and the government of Azerbaijan, the EU itself has achieved far more modest results. The country’s gas resources remain one of the key elements of the EU’s Southern Gas Corridor initiative to diversify supplies of gas to Europe. One of the strategy’s flagship projects is the Nabucco gas pipeline, on which the EU has spent millions of euros over the last 10 years.<sup>20</sup> However, the pipeline is probably going to be shelved because Baku seems to favour other competing initiatives.<sup>21</sup> And although improving energy efficiency is important, Azerbaijan’s oil revenues would suffice to cover the costs related to these projects, including possible EU consultants.

Little progress has been made in other areas either. Baku is dragging its heels on negotiations on the readmission agreement. Talks on the new Association Agreement are also currently marred in seemingly endless discussions about the status of Nagorno-Karabakh; even if it is concluded, the Association Agreement will be signed without a free trade agreement because Azerbaijan is not a WTO member. Meanwhile, the EU spends “peanuts”, as one EU official puts it, on other areas such as supporting independent media or local civil society. Even this money is used mainly on issues that have little to do with promoting political pluralism or strengthening civil society, such as improvements in the penitentiary system, environmental projects or assistance to Karabakh war refugees.<sup>22</sup> As a result, the EU is losing its soft power in Azerbaijan. “Increasingly, the EU treats our country as a Middle Eastern autocracy rather than a European dictatorship”, complains one Baku-based analyst.

The EU’s unconditional co-operation with the autocratic regime in Baku also runs against the “more for more” principle, which the EU vowed to make the cornerstone of

<sup>19</sup> Although Azerbaijan has adopted a number of WTO standards and approximation continues in a number of sectors, the negotiations are hardly moving forward. The main point of contention is Baku’s demand that it joins the WTO as a “developing country” despite the fact that all other post-Soviet states that became WTO members joined the organisation with “developed country” status. Agriculture subsidies (currently at 27 percent instead of the WTO’s 5 percent) are another point of contention.

<sup>20</sup> The EU itself earmarked €200 million for the project and helped facilitate the €4 billion loan offered to the project by the European Investment Bank, the World Bank and the European Bank for Reconstruction and Development.

<sup>21</sup> Vladimir Socor, “Trans-Anatolia Gas Pipeline: Wider Implications of Azerbaijan’s Project (Part One)”, *Eurasia Daily Monitor*, Volume 9, Issue 3, 5 January 2012, available at [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews\[tt\\_news\]=38846&tx\\_ttnews\[backPid\]=27&Hash=64855099ecf557ec3f24b3d8430789fo](http://www.jamestown.org/programs/edm/single/?tx_ttnews[tt_news]=38846&tx_ttnews[backPid]=27&Hash=64855099ecf557ec3f24b3d8430789fo).

<sup>22</sup> EU officials estimate that out of €68 million earmarked for Azerbaijan in the 2007–2013 period, €8 million will reach local civil society.

its neighbourhood policy last year. The idea was to pursue an individualised approach towards the neighbourhood states based on their demonstrated will to reform and democratise. But, in the absence of such will on the side of the government, the EU ends up simply co-operating on economic issues such as energy rather than trying to overcome obstacles to reform. The EU's timid approach to Azerbaijan – a striking contrast with the stand it took against the Lukashenka regime in Minsk (see the box) – calls into question the coherence of EU policy in the Eastern Partnership region.

## When “more for more” is not enough

The EU has a whole range of tools and a blueprint it can use to assist countries that want to join the EU through the period of painful yet necessary transition. In such cases, the EU's political conditionality can work as powerful leverage on unruly governments. The Balkan wars also helped the EU perfect the toolbox for countries emerging from conflict. But the EU has been struggling to find a way to deal with countries that are neither willing to join it nor trying to create internal stability and prevent the eruption of violent conflict. In the Eastern Partnership region, both Belarus and Azerbaijan fall into this category: as the case of Minsk shows, pure conditionality based on the principle of “more for more” may actually lead to less interaction with the EU and undermine the already limited influence that the EU has in these countries. In its relations with Baku, the EU could face similar problems.

Strict application of conditionality with Azerbaijan may be more harmful to civil society than to the authorities in Baku, who, because of energy revenues, do not in any case need EU financial aid. The EU has less leverage than in Armenia or Georgia. Unlike Tbilisi, which aspires to eventual EU membership, the authorities in Baku see their relationship with the EU through the lens of possible economic gains and as part of its multi-faceted foreign policy rather than as a means of democratisation and greater integration with the EU markets. The EU's financial levers are also limited: in 2012, the EU's offer of €31 million in exchange for social and economic reforms was dwarfed by the almost €43 million that Azerbaijan earns every day from oil.<sup>23</sup>

However, the EU does have some leverage. If Azerbaijan is to diversify its oil-based economy, it will need the EU – rather than Iran or Russia – for technology and know-how. Much of this can be provided by European companies, but unless it improves its governance and judicial system, Azerbaijan will struggle to attract firms into sectors other than extraction industries. Talk about the EU's energy dependence on this South Caucasus country as the only

<sup>23</sup> On EU assistance to Azerbaijan, see [http://ec.europa.eu/europeaid/where/neighbourhood/country-cooperation/azerbaijan/azerbaijan\\_en.htm](http://ec.europa.eu/europeaid/where/neighbourhood/country-cooperation/azerbaijan/azerbaijan_en.htm). On Azerbaijan's revenue from oil exports, see “How much money Azerbaijan Oil Fund has?”, Center for Economic and Social Development, 11 February 2012, available at <http://cesd.az/new/2012/02/azeri-oil-fund%E2%80%99s-assets-reached-298-billion-in-2011/>.

## The case of Belarus: Many conditions, too little to show for it

The 2010–2011 crackdown on civil society and imprisonment of 12 politicians and activists in Belarus provoked a strong reaction from Brussels: the EU froze almost all political relations with Minsk, imposed a visa ban on more than 250 people and adopted targeted economic sanctions on a number of companies as well as three businessmen thought to be the regime's “bagmen”. Simultaneously, the EU expanded the pool of funding available for local civil society and a number of EU political leaders met the Belarusian opposition politicians and activists to publicly express their support.

Although the regime released two of the 12 prisoners earlier this year, the strict political conditionality that the EU has applied has for various reasons so far failed to produce results and push President Alyaksandr Lukashenka to liberalise. The EU's economic leverage on Minsk is rather limited: Belarus's economy is heavily dependent on Russian markets and Moscow's support in the form of subsidised energy products.

The EU could ratchet up pressure on Minsk by banning the import of energy products from Belarus – one of the country's most important exports – but few EU member states are eager to do so. Some of them, such as Latvia, fear their own economic ties would suffer badly; moreover, experts point out that these measures would have little effect anyway thanks to Belarus's membership in the Common Economic Area with Russia and Kazakhstan and to Moscow's continued political support for Lukashenka.<sup>24</sup>

The discussion about EU sanctions has also polarised civil society and the opposition in Belarus: while some of them argue that the EU should impose even harsher measures, others say these actions would only lead to the isolation of Belarus as a whole rather than the key figures in the Lukashenka regime. They also point out that support for EU integration among ordinary Belarusians has declined since the EU imposed sanctions.<sup>25</sup> What is clear is that, for the moment, even the EU's tougher stance has brought few results.

<sup>24</sup> Dzianis Melyantsou, “Where do EU sanctions lead?”, Belarusian Institute for Strategic Studies, 25 January 2012, available at [http://belinstitute.eu/index.php?option=com\\_content&view=article&id=1142%3A2012-01-23-21-09-01&catid=3%3Aeu&Itemid=28&lang=en](http://belinstitute.eu/index.php?option=com_content&view=article&id=1142%3A2012-01-23-21-09-01&catid=3%3Aeu&Itemid=28&lang=en).

<sup>25</sup> According to polling data from the Independent Institute for Social, Economic and Political Studies, from March 2012, 47 percent of Belarusians supported Russia and 37 percent the EU, a significant change from more-or-less equal support for Moscow and Brussels after Belarus's presidential election in December 2010. See “Support for EU in Serious Decline”, Belarusian Institute for Strategic Studies, polling memo, 23 April 2012, available at <http://belinstitute.eu/images/doc-pdf/pmo2012en.html>.

alternative to Russian gas deliveries ignores the wider context: the EU's gradually liberalising energy market and liquefied natural gas and shale gas will in the future offer new alternatives to pipelined gas – be it from Russia or Azerbaijan. In fact, as the country's first trading partner, the EU is potentially the most powerful external economic actor in Azerbaijan. Moreover, as in Russia, the country's political elite is Western-oriented: although they often benefit from the corrupt system at home, their savings are in European banks, their children study in European schools and they have property in Europe.

All these factors create potential leverage which Europe should use more forcefully to make Baku restrain its autocratic tendencies. It can do so by pursuing a “hug and hold” strategy – that is, hugging Azerbaijan but also holding it to its commitments to reform. The EU should also look beyond the government and cultivate more contacts with those who are its natural friends in Azerbaijan, who will benefit the most from the reforms and who are most likely to pressure their government to adopt them: civil society, entrepreneurs and society in general.

#### *“Hugging...”*

At the moment, the EU's best chance for more reform in Azerbaijan is continued engagement – rather than isolation – of the Baku government. At the practical level, the EU should continue to use its dialogue with the government to assist in areas that are important for Azerbaijan's modernisation and transformation, such as governance, rule of law or diversification of the country's economy, as well as those where the EU can increase its indirect influence through outreach to broader society. When it comes to co-operation with the government, the limited funds the EU has should be invested where its assistance can have greater added value rather than into equipment or infrastructure projects.

In particular, in its co-operation with the Azerbaijani government, the EU should prioritise initiatives aimed at the transfer of know-how, capacity-building in the public sector and exchange programmes for junior and mid-level bureaucrats – but it should carefully monitor results and insist on participation of the real (as opposed to government-organised) NGOs and non-state actors, such as independent experts, in all stages of the process. A greater part of the EU's financial package for Azerbaijan should be used on areas such as educational reform. More diplomatic efforts should also be focused on helping to achieve progress on negotiations on visa facilitation and readmission agreements, the conclusion of which should become the precondition for signing any other significant agreements with Azerbaijan including the Association Agreement. These measures do not require an increase in the EU's assistance to the Baku government, but they do require a concerted effort by the EU to steer its finances in a way that brings more benefits to the whole country rather than just the regime.

“Hugging” Azerbaijan does not mean embracing only its government. The EU should throw more political and financial support behind those who can put more pressure on the regime domestically and create evolutionary change in the future. These include poorly resourced grassroots interest groups, NGOs, small and medium-sized enterprises, independent media or professional associations.<sup>26</sup> To provide greater support for these groups, the EU should pool the funds available through a number of instruments including the European Neighbourhood and Partnership Instrument (and the future European Neighbourhood Instrument), Civil Society Facility or, when it is set up, the European Endowment for Democracy. The EU should be more vocal in demanding greater political pluralism – this will be especially crucial in the months following the Eurovision Song Contest because the regime hopes that less international attention will give it more leeway to “deal” with uncomfortable voices. Here, the EU could partner more closely with the United States and consider issuing joint statements on human rights abuses. Given the closeness between Baku and Ankara, the EU should also try to solicit more co-operation from Turkey on pushing Azerbaijan to reform. The EU also needs to do a better job in explaining its actions and demands to Azerbaijani society in order to increase the trust of local actors towards the EU and their confidence in their own capacity to hold their government responsible.

#### *...but holding*

While “hugging” Azerbaijan, Europe should also hold it to the commitments it made by joining the ENP and agreeing action plans.<sup>27</sup> The European Commission's recent offer of a “matrix” for Azerbaijan is a step in the right direction as it links its assistance to the government's performance on reform.<sup>28</sup> If the regime expresses no interest in EU aid or continues to underperform, the EU should apply “adjusted conditionality” and re-direct the funds towards local civil society.<sup>29</sup> To monitor the government's actions, the EU should also work to develop greater co-operation and interaction with Azerbaijan's national platform of the Eastern Partnership Civil Society Forum and local watchdogs.<sup>30</sup> The EU should also establish an internal contact group among relevant EU institutions and directorates-general (led by the European

<sup>26</sup> Leila Alieva, “Azerbaijan and Eastern Partnership: partnership through empowerment”, EaP Community, 25 January 2011, available at <http://www.easternpartnership.org/publication/2011-01-25/azerbaijan-and-eastern-partnership-partnership-through-empowerment>.

<sup>27</sup> See “ENP Package, Country Progress Report – Azerbaijan”, European Commission, 15 May 2012, available at <http://europa.eu/rapid/pressReleasesAction.do?reference=M EMO/12/331&format=HTML&aged=0&language=EN&guiLanguage=en>.

<sup>28</sup> Similar matrices or lists of reforms the European Commission expects from partner countries have been in the past presented to Ukraine and Moldova.

<sup>29</sup> Leila Alieva, “EU and the South Caucasus”, CAP/Bertelsmann Group for Policy Research, Discussion paper, December 2006, available at [http://www.cap.lmu.de/download/2006/2006\\_Alieva.pdf](http://www.cap.lmu.de/download/2006/2006_Alieva.pdf); and Leila Alieva, “The Arab revolutions: the case for better EU approach to the East and for adjusted conditionality”, EaP Community, 22 April 2011, available at <http://www.easternpartnership.org/publication/politics/2011-04-22/arab-revolutions-case-better-eu-approach-east-and-adjusted-condition>.

<sup>30</sup> The National Platform of the Eastern Partnership Civil Society Forum in Azerbaijan is a network of NGOs to promote the implementation of the EaP initiatives.

External Action Service or Commissioner Füle) to facilitate exchange of information and co-ordination of EU assistance for Azerbaijan.<sup>31</sup>

A concerted effort at the EU level to restrict the movement of those in Azerbaijan who violate human rights on a systematic basis is unlikely. But member states can take action individually and should follow the example set by the British government, which earlier this year adopted a new rule banning those non-EU nationals accused of human rights abuses from entering the UK.<sup>32</sup> The UK took this measure even though it traditionally has good relations with the Azerbaijani government and London's property market is the prime destination for investment by the Azerbaijani elite. The provision will hardly be enough to encourage the Aliyev regime to fully democratise, but it might significantly change the calculations for those in the ruling elite taking part in human rights violations.

As one of Azerbaijan's most important partners, the EU should abandon the "lack of leverage" narrative. Europeans need to pursue a more vocal and bolder approach towards Baku. As this brief has argued, fears that the government would rebuff Brussels are ungrounded and mostly promoted by the regime itself: as the sustainability of Azerbaijan's economic model is increasingly in doubt, the EU's importance as a partner for Baku will grow. Unlike Lukashenka in Belarus, President Aliyev strives for international recognition and prestige. The EU should use the regime's image-consciousness and voice its criticism more vocally when the government performs badly or cracks down on human rights and point out when it is falling behind its two South Caucasian neighbours and other Eastern Partnership states in order to increase the peer competition.

As Azerbaijan grows more authoritarian, Europe faces a choice. It can fully embrace this country and its society, which is proud of becoming the first-ever Muslim liberal democratic republic in 1918, or it can continue its condition-free dialogue with the regime. If it chooses the second option, in the medium term, it risks finding itself in the same position it was in the southern neighbourhood before the Arab Awakening: that of a quiet supporter of autocrats.

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<sup>31</sup> On the side of Azerbaijan, there is a National Coordinating Unit for EU Technical Assistance.

<sup>32</sup> This relates to accusations based on "independent, reliable and credible evidence". See Human Rights and Democracy: The 2011 Foreign and Commonwealth Office Report, available at <http://fcohrdreport.readandcomment.com/wp-content/uploads/2011/02/Cm-8339.pdf>.

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