



Azerbaijan: Recent Developments and U.S. Interests

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Summary

This report discusses political, economic, and security challenges facing Azerbaijan, including the unsettled conflict in the breakaway Nagorno Karabakh region. A table provides basic facts and biographical information. Related products include CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, by Jim Nichol.

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U.S. Relations

On May 12, 2010, Deputy Assistant Secretary of State Tina Kaidanow visited Azerbaijan and averred that “the United States considers Azerbaijan an essential partner. Our interests overlap in many areas, from collaborating on strengthening energy security via Southern Corridor gas and oil projects to our work together countering terrorism and extremism.” Under Secretary of Defense for Policy Michele Flournoy likewise stressed during a visit to Azerbaijan in April 2010 that “the United States seeks a strong and dynamic partnership between our two nations as we face a range of global challenges which neither of us can tackle alone. We are strong friends and are committed to working together with the Azerbaijani government and people to support the development of a secure, democratic, and prosperous state.”¹

Despite these positive statements about bilateral relations, Azerbaijani officials have voiced concerns about U.S. policy in recent months. Azerbaijan strongly opposed the U.S.-backed normalization of relations between Armenia and Turkey (see below), and President Aliyev reportedly felt slighted when he was not invited to the April 2010 U.S. nuclear security summit, even though the two other regional leaders were invited and held meetings with President Obama.²

Cumulative U.S. aid budgeted for Azerbaijan from FY1992 through FY2008 was \$832.24 million (“all spigot” foreign assistance). Almost one-half of the aid was humanitarian, and another one-fifth supported democratic reforms. Budgeted aid to Azerbaijan was \$24.946 million in FY2009 and an estimated \$30.135 million in FY2010, and the Administration requested \$29.3 million for FY2011 (the numbers for FY2009, FY2010, and FY2011 include FREEDOM Support Act and other foreign aid and exclude Defense and Energy Department funds). In FY2011, the Administration plans to address the “worsening climate for democratic activists and independent voices [by increasing] assistance to foster the public’s access to objective information and development of a vibrant independent media,” bolster judicial independence, help non-governmental organizations and political parties to represent citizens, strengthen legal defense, and improve election monitoring and administration (however, the request for FY2011 is less than for FY2010). Another major aid priority will be strengthening the interoperability of Azerbaijani military forces with U.S. coalition forces in Afghanistan and with NATO, modernizing the armed forces, bolstering maritime security in the Caspian Sea, and improving airspace management. The Administration also has requested a further boost in assistance for conflict mitigation and reconciliation efforts in the Eurasia Region, from \$11.8 million in estimated funding in FY2010 to \$15.6 million in FY2011, some portion of which is planned to foster settlement of the Armenia-Azerbaijan conflict over Azerbaijan’s breakaway Nagorno Karabakh (NK) region.³

¹ Embassy of the United States, Baku, Azerbaijan. *State Department Envoy Exchanges Views with Azerbaijani Leaders*, May 12, 2010; *U.S. Defense Official Highly Values U.S.-Azerbaijan Partnership*, April 17, 2010.

² Alexander Jackson, “Behind the U.S.-Azerbaijan Row,” *Caucasus Update*, May 6, 2010. National Security Council official Laura Holgate explained that Azerbaijan was not invited to the nuclear security summit because “we were intending to get a representative collection of countries. We couldn’t invite every single country that has any nuclear connectivity and so we were looking for countries that represented regional diversity where we had states that had weapons, states that don’t have weapons, states with large nuclear programs, states with small nuclear programs.” The White House. Office of the Press Secretary. *Press Briefing on the President’s Bilateral Meetings and the Upcoming Nuclear Security Summit*, April 11, 2010.

³ U.S. Department of State. *Congressional Budget Justification for Foreign Operations for FY2011*, March 2010.

Since FY2004, Azerbaijan has been designated as a candidate country for enhanced U.S. development aid from the Millennium Challenge Corporation, but it has not been selected as eligible for aid because of low scores on measures of political rights, civil liberties, control of corruption, government effectiveness, the rule of law, accountability, and various social indicators.

Figure 1. Azerbaijan



Source: Map Resources. Adapted by CRS.

Table I. Basic Facts

Congressional concerns about the ongoing NK conflict led in 1992 to Section 907 of the FREEDOM Support Act (P.L. 102-511) that prohibited most U.S. government-to-government assistance to Azerbaijan until the President determined that Azerbaijan had made “demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh.” Congress eased many Section 907 restrictions on a year-by-year basis until the terrorist attacks on the United States in September 2001, after which it approved an annually renewable presidential waiver (P.L. 107-115). The conference managers stated that the waiver was conditional on Azerbaijan’s cooperation with the United States in combating terrorism and directed that aid provided under the waiver not undermine the peace process. Congress has called for equal funding each year for Foreign Military Financing and International Military Education and Training for Armenia and Azerbaijan. Other congressional initiatives have included the creation of a South Caucasus funding category in FY1998 to encourage an NK peace settlement, provide for reconstruction, and facilitate regional economic integration. Congress also has called for humanitarian aid to NK, which has amounted to \$30.8 million expended from FY1998 through FY2008. Congress passed “The Silk Road Strategy Act” in FY2000 (as part of consolidated appropriations, P.L. 106-113) calling for enhanced policy and aid to support conflict amelioration, humanitarian needs, democracy, economic development, transport and communications, and border controls in the South Caucasus and Central Asia.

Area and Population: Land area is 33,774 sq. mi.; about the size of Maine. The population is 8.3 million (*The World Factbook*; mid-2010 est.). Administrative subdivisions include the Nakhichevan Autonomous Republic (NAR) and the Nagorno (“Mountainous”) Karabakh Autonomous Region (NK). NK’s autonomy was dissolved in 1991.

Ethnicity: 90.6% are Azerbaijani; 2.2% Dagestani; 1.8% Russian; 1.5% Armenian, and others (1999 census). An estimated 6-12 million ethnic Azerbaijanis reside in Iran.

Gross Domestic Product: \$86.0 billion; per capita GDP is about \$10,400 (*World Factbook*; 2009 est., purchasing power parity).

Leaders: President: Ilkham Aliyev; Chairman of the Milli Mejlis (legislature): Oqtay Asadov; Prime Minister: Artur Rasizade; Foreign Minister: Elmar Mammadyarov; Defense Minister: Safar Abiyev.

Biography: Ilkham Aliyev, born in 1961, graduated with a *kandidata* (advanced) degree from the Moscow State Institute of International Relations in 1985 and then taught history. In 1991-1994, he was in business in Moscow and Baku, then became head of the State Oil Company (SOCAR). He was elected to the legislature in 1995 and 2000. In 1999, he became deputy, then first deputy chairman, of the ruling New Azerbaijan Party. In August 2003, he was appointed prime minister, and was elected president in October 2003. He was re-elected in 2008.

Contributions to Counter-Terrorism

After the terrorist attacks on the United States on September 11, 2001, Azerbaijan “granted blanket overflight clearance, engaged in information sharing and law-enforcement cooperation, and approved numerous landings and refueling operations at Baku’s civilian airport in support of U.S. and Coalition military operations” in Afghanistan.⁴ Azerbaijan has participated in International Security Assistance Force (ISAF) operations in Afghanistan since 2003. It increased its contingent from 45 to 90 personnel in 2009, including medical and civil affairs specialists. After August 2003, about 150 Azerbaijani troops participated in the coalition stabilization force

⁴ U.S. Department of State. *Country Reports on Terrorism 2008*, April 30, 2009.

for Iraq. These troops withdrew from Iraq in late 2008. During her April 2010 visit to Azerbaijan, Under Secretary of Defense Flournoy voiced deep appreciation for

Azerbaijan's critical contributions to the international effort in Afghanistan, to countering violent extremism, and to regional and global security. Azerbaijan's strategic location at the crossroads of Eurasia has made it a vital partner of the United States.... Azerbaijan is a key node in the global air and ground network that resupplies [the International Security Assistance Force] and Afghan security personnel.⁵

Foreign Policy and Defense

President Ilkham Aliyev has emphasized good relations with the neighboring states of Georgia and Turkey, but relations with these and other countries have often been guided by their stance regarding the NK conflict. Azerbaijan has viewed Turkey as a major ally to balance Russian and Iranian influence, and Armenia's ties with Russia. Relations with Turkmenistan are strained by competing claims over offshore oil and gas fields (see below). Azerbaijan is a member of the OSCE, Black Sea Economic Cooperation group, Council of Europe (COE), Economic Cooperation Organization, and Organization of the Islamic Conference.

Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered through increasingly repressive actions. Azerbaijani elites fear Iranian-supported Islamic fundamentalism and question the degree of Iran's support for an independent Azerbaijan.

Frictions in Azerbaijani-Russian relations have included Azerbaijan's allegations of a Russian "tilt" toward Armenia in NK peace talks. In 1997, Russia admitted that large amounts of Russian weaponry had been quietly transferred to Armenia, and in 2000 and 2005-2007, Russia transferred heavy weaponry from Georgia to Armenia, fueling Azerbaijan's view that Russia supports Armenia in the NK conflict. Azerbaijani-Russian relations appeared to improve in 2002 when the two states agreed on a Russian lease for the Soviet-era Gabala early warning radar station in Azerbaijan and reached accord on delineating Caspian Sea borders. Perhaps seeking Russian support for his new rule, Ilkham Aliyev in March 2004 reaffirmed the 1997 Azerbaijani-Russian Friendship Treaty. In late 2006, Russia's demands for Azerbaijan and Georgia to pay substantially higher gas prices appeared to contribute to the cooling of Azerbaijani-Russian relations. After the August 2008 Russia-Georgia conflict, Azerbaijan appeared to move toward better relations with Russia. During Russian President Medvedev's late June 2009 visit to Baku, Azerbaijan agreed to send small amounts of gas to Russia (see below). Azerbaijan's relations with Russia appeared even closer in 2010 as a reaction against the Turkish initiative to improve relations with Armenia and U.S. Administration backing for this effort.

According to former Armenian Foreign Minister Vartan Oskanyan, Article 4 of the Commonwealth of Independent States' Collective Security Treaty (signatories including Russia, Armenia, Belarus, and all the Central Asian states except Turkmenistan) pertains to aggression from outside the commonwealth, so does not pertain to the NK conflict (since Azerbaijan is a member of the commonwealth).⁶ After the CST Organization agreed to form large rapid response

⁵ Embassy of the United States, Baku, Azerbaijan. *U.S. Defense Official Highly Values U.S.-Azerbaijan Partnership*, April 17, 2010.

⁶ CRS interview, October 26, 2006.

forces in February 2009, however, some policymakers in Armenia claimed the forces could be a deterrent to possible Azerbaijani aggression.⁷ Some policymakers in Azerbaijan likewise viewed the formation of the forces as a threat.⁸ The Secretary-General of the Collective Security Treaty Organization (CSTO), Nikolai Bordyuzha, has proclaimed that the CSTO would never intervene in the NK conflict, but also has stressed that Armenia and Russia have close bilateral military ties.⁹

In September 2008, Turkey's President Abdullah Gül visited Armenia, ostensibly to see a soccer game, and this thaw contributed to the two countries reaching agreement in April 2009 on a "road map" for normalizing ties, including the establishment of full diplomatic relations and the opening of borders. After further negotiations, Turkish Foreign Minister Ahmet Davutoglu and Armenian Foreign Minister Edvard Nalbandian initialed two protocols "On Establishing Diplomatic Relations," and "On Development of Bilateral Relations" on August 31, 2009, and formally signed them on October 10, 2009. Azerbaijan strongly criticized Turkey for moving toward normalizing relations with Armenia without formally linking such a move to a peace settlement of the NK conflict. This criticism quickly elicited pledges by Turkey's leaders that the Turkish legislature would not approve the protocols until there was progress in settling the NK conflict. On April 22, 2010, the ruling Armenian party coalition issued a statement that "considering the Turkish side's refusal to fulfill the requirement to ratify the accord without preconditions in a reasonable time, making the continuation of the ratification process in the national parliament pointless, we consider it necessary to suspend this process."¹⁰

The United States reportedly actively supported Switzerland in mediating the talks that led to the signing of the protocols. On April 14, 2010, President Aliyev warned that the Obama Administration's backing of the protocols threatened U.S. interests in Azerbaijan, stating that "how can we defend and support the interests of someone who is acting against our interests?"¹¹ The next day, Azerbaijani presidential administration official Ali Hasanov asserted that "we are not happy with the activities the United States demonstrates within the Minsk Group towards the settlement of the Armenian-Azerbaijani conflict over NK.... If the United States continues to demonstrate a biased position on the NK issue, Azerbaijan may reconsider its strategic partnership ties with the United States."¹² The U.S. State Department responded that the United States remains evenhanded in its mediation efforts. A few days later, Azerbaijan cancelled a military exercise scheduled with the United States for May 2010.

Azerbaijani armed forces consist of 66,940 army, air force, air defense, and navy troops. There also are about 5,000 border guards and more than 10,000 Interior (police) Ministry troops.¹³ The military budget was about \$800 million in 2007 and \$2 billion in 2008. The legislature approved a \$1.5 billion military budget for 2009 (about 10% of all budget expenditures), but President

⁷ CEDR, February 5, 2009, Doc. No. CEP-950302.

⁸ CEDR, February 8, 2009, Doc. No. CEP-950079. The head of Azerbaijan's presidential foreign relations department, Novruz Mammadov, however, stated that he did not view the creation of the forces as a threat, because Azerbaijan has good relations with all the CSTO members except Armenia. CEDR, February 5, 2009, Doc. No. CEP-950290.

⁹ CEDR, March 20, 2009, Doc. No. CEP-950105; June 1, 2009, Doc. No. CEP-358003.

¹⁰ "Armenia Suspends Normalization of Ties with Turkey," *BBC News*, April 22, 2010.

¹¹ Open Source Center. "Azerbaijan Rebukes US Stance on Turkey-Armenia Relations," *OSC Feature*, May 20, 2010, Doc. No. FEA-5172.

¹² CEDR, April 16, 2010, Doc. No. CEP-950076; April 15, 2010, Doc. No. CEP-950119.

¹³ International Institute of Strategic Studies. *The Military Balance*, February 3, 2010.

Aliyev stated in January 2009 that military spending would be \$2.3 billion. Under a 10-year lease agreement, about 1,400-1,500 Russian troops are deployed at Gabala. Azerbaijan reportedly received foreign-made weapons of uncertain origin and armed volunteers from various Islamic nations to assist its early 1990s struggle to retain NK. In 1994, Azerbaijan joined NATO's Partnership for Peace (PFP) and began an Individual Partnership Action Plan (IPAP) in 2005, but President Aliyev has not stated that the country seeks to join NATO. Some Azerbaijani troops have participated in NATO peacekeeping in Kosovo since 1997 and operations in Afghanistan since 2003. The bulk of Azerbaijani weapons reportedly come from Russia, Ukraine, and Belarus, although some NATO-compatible communications and other equipment have been received.¹⁴

The NK Conflict

In 1988, NK petitioned to become part of Armenia, sparking ethnic conflict. In December 1991, an NK referendum (boycotted by local Azerbaijanis) approved NK's independence and a Supreme Soviet was elected, which in January 1992 futilely appealed for world recognition. The conflict over the status of NK resulted in about 30,000 casualties and over 1 million Azerbaijani and Armenian refugees and displaced persons. The non-governmental International Crisis Group (ICG) estimates that about 13%-14% of Azerbaijan's territory, including NK, is controlled by NK Armenian forces (the Central Intelligence Agency estimates about 16%).¹⁵ A ceasefire agreement was signed in July 1994 and the sides pledged to work toward a peace settlement. The "Minsk Group" of concerned member-states of the Organization for Security and Cooperation in Europe (OSCE) facilitates peace talks. The United States, France, and Russia co-chair the Minsk Group.

On November 29, 2007, then-Undersecretary of State Nicholas Burns, Russian Foreign Minister Sergey Lavrov, and French Foreign Minister Bernard Kouchner presented the Foreign Ministers of Armenia and Azerbaijan with a draft text—*Basic Principles for the Peaceful Settlement of the Nagorno-Karabakh Conflict*—for transmission to their presidents. These officials urged the two sides to accept the *Basic Principles* (also termed the Madrid proposals, after the location where the draft text was presented) that had resulted from three years of talks and to begin "a new phase of talks" on a comprehensive peace settlement.¹⁶ The *Basic Principles* call for the phased return of the territories surrounding NK to Azerbaijani control; an interim status for NK providing guarantees for security and self-governance; a corridor linking Armenia to NK; future determination of the final legal status of NK through a legally binding expression of will; the right of all internally displaced persons and refugees to return to their former places of residence; and international security guarantees that would include a peacekeeping operation.¹⁷

In the wake of the Russia-Georgia conflict in early August 2008, Armenian President Sarkisyan asserted that "the tragic events in [Georgia's breakaway South Ossetia region] confirm that every

¹⁴ Shahin Abbasov, "Azerbaijan Mum About Israeli Spy Plane, Satellite Projects," *Eurasia Insight*, August 17, 2009.

¹⁵ ICG. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005. CIA. *The World Factbook*, <http://www.cia.gov>. The casualty estimate is from the State Department, *Background Note: Azerbaijan*, May 2008.

¹⁶ U.S. Department of State. Office of the Spokesman. Media Note: Support for Basic Principles for Peaceful Settlement of the Nagorno-Karabakh Conflict, November 29, 2007.

¹⁷ The White House. *Joint Statement on the Nagorno-Karabakh Conflict by U.S. President Obama, Russian President Medvedev, and French President Sarkozy at the L'Aquila Summit of the Eight*, July 10, 2009.

attempt in the South Caucasus to look for a military answer in the struggle for the right to self-determination has far-reaching military and geopolitical consequences.”¹⁸

On October 9, 2009, Presidents Sargisyan and Aliyev held talks at the residence of the U.S. ambassador in Chisinau, Moldova, on the sidelines of a summit of the Commonwealth of Independent States. The Minsk Group co-chairs participated after one-on-one talks by the two leaders. New U.S. co-chair Robert Bradtke reported that the two presidents discussed line-by-line details of a possible settlement. The co-chairs presented “renovated” Madrid principles to President Aliyev in Baku in December 2009 and to President Sarkisyan in Yerevan in January 2010. President Medvedev hosted Aliyev and Sargisyan in Sochi, Russia, in late January 2010, and the two sides reportedly agreed on many parts of a preamble to an agreement. In mid-February 2010, Azerbaijani Foreign Minister Mamedyarov announced that Baku accepted many of the elements of the “renovated” Madrid principles presented in late 2009. The Minsk Group co-chairs met with Armenian Foreign Minister Eduard Nalbandian in Brussels on May 12, 2010, and plan to meet with Azerbaijani Foreign Minister Elmar Mamedyarov in early June. Azerbaijan’s Deputy Foreign Minister Araz Azimov claimed in mid-May 2010 that the Minsk Group talks had stagnated since the Sochi meeting.¹⁹

Political and Economic Developments

The Azerbaijani constitution, approved by a popular referendum in November 1995, strengthened presidential power and established an 125-member legislature (Milli Mejlis) with a five-year term for deputies. The president appoints and removes cabinet ministers (the Milli Mejlis consents to his choice of prime minister), submits budgetary and other legislation that cannot be amended but only approved or rejected within 56 days, and appoints local officials. The U.S. State Department viewed an August 2002 constitutional referendum as flawed and as doing “very little to advance democratization.”

In October 2003, Ilkham Aliyev handily won a presidential election, beating seven other candidates with about 77% of the vote. Protests alleging a rigged vote resulted in violence, and spurred reported government detentions of more than 700 opposition party “instigators.” Trials reportedly resulted in several dozen prison sentences. In early 2005, the OSCE issued a report that raised concerns about credible allegations of use in the trials of evidence derived through torture. Aliyev in March 2005 pardoned 114 prisoners, including many termed political prisoners by the OSCE.

Changes to the election law were approved by the legislature in June 2005, including some making it easier for people to become candidates for a November 2005 legislative election. Azerbaijan’s Central Electoral Commission (CEC) declared that the ruling Yeni Azerbaijan Party won 54 seats and independents, 40 seats. Opposition party candidates were declared the winners in a handful of constituencies. The U.S. Embassy in Azerbaijan issued a statement urging the government to investigate and rectify some voting irregularities but also praised the election as evidence of democratization progress. The CEC and courts eventually ruled that 625 (12.2%) of precinct vote counts were suspect, and repeat races were held in May 2006 in ten constituencies. The opposition Azadliq electoral bloc refused to field candidates in what it claimed were “rigged”

¹⁸ Open Source Center. *Europe: Daily Report*, August 27, 2008, Doc. No. EUP-085016.

¹⁹ *Azeri Press Agency*, May 14, 2010.

elections. OSCE monitors judged the repeat race as an improvement over the November election but stated that irregularities still occurred. The next legislative election is scheduled to be held on November 7, 2010.

A presidential election was held on October 15, 2008. In early June 2008, the legislature approved changes to the electoral code. Some of the changes had been recommended by the Venice Commission, an advisory body of the Council of Europe. However, other recommendations of the Venice Commission were not considered, including those on eliminating the dominance of government representatives on election commissions.²⁰ The opposition Azadliq (Freedom) party bloc decided on July 20 that it would boycott the election on the grounds that the election laws were not fair, their parties faced harassment, and media were constrained.²¹ Incumbent President Aliyev won a resounding victory, gaining nearly 89% of the vote against six other candidates. According to a report by election monitors from the OSCE, the Parliamentary Assembly of the Council of Europe (PACE), and the European Parliament (EP), the voting process was peaceful, well organized, and efficient, but there was a “lack of robust competition” and there appeared to be “significant procedural shortcomings [in vote counting] in many cases, and manipulation in some instances.”²²

Proposed amendments to the constitution were overwhelmingly approved by citizens in a referendum held on March 18, 2009. According to a small delegation from PACE, the voting “was transparent, well organized, and held in a peaceful atmosphere.” They criticized the dearth of discussion in the media of the merits of the constitutional amendments and voiced regret that some changes to the amendments proposed by the Venice Commission were not made before they were voted on. Some opposition parties had in particular objected to an amendment lifting term limits on the presidency during a “state of war,” and had called for a boycott of the referendum.²³

On December 23, 2009, municipal elections were held throughout the country. Opposition parties and local election monitors reported interference in the candidate registration process. A Council of Europe delegation alleged that there were shortcomings in the counting of voters in the polling stations, the legibility of ballot papers, and the reliability of the vote count.

According to the U.S. State Department’s *Country Reports on Human Rights Practices for 2009*, the human rights situation in Azerbaijan continued to be poor and worsened in some areas during 2009. The Human Rights Center of Azerbaijan, an NGO, reported that the number of persons tortured by security forces increased from 81 in 2008 to 131 during 2009, of which at least four subsequently died. The judiciary remained corrupt and inefficient. Neither the judiciary nor the legislature functioned independently of the executive branch. There was no evidence of direct and witting official complicity in trafficking, but corruption reportedly created opportunities for evasion of the law. Restrictions on the media worsened. The international NGO Committee to Protect Journalists reported that there were 51 verbal or physical assaults on journalists in 2009, compared to 49 in 2008. Although some imprisoned journalists received amnesties, several

²⁰ European Commission for Democracy Through Law (Venice Commission). *Joint Interim Opinion on the Draft Amendments to the Electoral Code of the Republic of Azerbaijan*. 74th Plenary Session, March 14-15, 2008, Opinion no. 390/2006, CDL-AD(2008)003, March 18, 2008.

²¹ Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), April 24, 2008, Doc. No. CEP-950216.

²² OSCE/PACE/EP. Republic of Azerbaijan Presidential Election, 15 October 2008: Statement of Preliminary Findings and Conclusions, October 16, 2008.

²³ *CEDR*, January 23, 2009, Doc. No. CEP-950024 and Doc. No. CEP-950276; February 23, 2009, Doc. No. CEP-950103; March 19, 2009, Doc. No. CEP-950277.

remained incarcerated, and others were newly jailed for libel or other charges. All broadcast media adhered to a pro-government stance. At the beginning of 2009, the government banned Voice of America, Radio Free Europe/Radio Liberty, and the BBC from broadcasting on national television or FM radio. There were no restrictions on systems to receive satellite broadcasts. Despite a 2008 law, the government continued to require all rallies to be preapproved and held far from the center of Baku. Changes to the law on NGOs in July 2009 included requirements that NGOs provide membership lists to the government and that foreign-based NGOs sign agreements with the government on allowable operations. Amendments in May 2009 to the law on religion reportedly decreased religious freedom. By May 2010, only one-half of previously registered religious groups had been re-registered, and several groups had been denied registration. Religious Muslims faced discrimination, including the closing of several mosques. Members of the opposition continued to experience more official harassment and arbitrary arrest than other citizens, and these problems contributed to a continued decline of opposition party activities. NGOs variously calculated that there were 23-45 political prisoners. Since 2006, the government has prevented Popular Front Party chairman Ali Kerimli from travelling abroad. Akifa Aliyeva, the head of the Helsinki Citizens' Assembly, a human rights NGO, fled the country after reporting repeated harassment.²⁴

The collapse of the Soviet Union and the NK conflict in the early 1990s contributed to the decline of Azerbaijan's GDP by over 60% by 1995. The economy began to turn around in 1996-1997. GDP growth in 2006-2007 was estimated at more than 25% per year, which contributed to a rise in consumer price inflation to double digits. Rising oil and gas exports (and rising world prices for oil) fueled GDP growth, along with the expansion of the construction, banking, and real estate sectors. The global economic downturn and the decline in oil prices contributed to a slowdown of GDP growth to about 11% in 2008 and 9.3% in 2009. The slowdown reduced inflation from 20.8% in 2008 to 1.5% in 2009.

The Economist Intelligence Unit (EIU) estimates that GDP growth will be 8.9% in 2010 and that inflation will be 6%. Budget revenues fell off in 2009, including as a result of tax cuts introduced by President Aliyev to stimulate the economy. Some of the budget shortfall was alleviated by withdrawals from the State Oil Fund, which permitted stepped-up government spending for social programs and continued infrastructure projects.²⁵ According to the International Monetary Fund, Azerbaijan needs to facilitate the growth of other sectors of the economy within the next few years if it is to sustain economic development, since oil and gas revenues may begin to decline.²⁶ Up to one-fourth of the population lives and works abroad because of high levels of unemployment in Azerbaijan.

Energy

The U.S. Energy Department in December 2007 reported estimates of 7-13 billion barrels of proven oil reserves, and estimates of 30-48 trillion cubic feet of proven natural gas reserves in Azerbaijan. U.S. companies are shareholders in three international production-sharing consortiums that have been formed to exploit Azerbaijan's Caspian Sea oil and gas fields,

²⁴ U.S. Department of State. *Country Reports on Human Rights Practices for 2009*, March 11, 2010.

²⁵ Economist Intelligence Unit. *Country Report: Azerbaijan*, May 2010.

²⁶ International Monetary Fund. *World Economic and Financial Surveys: Regional Economic Outlook, Middle East and Central Asia*, May 2010.

including the Azerbaijan International Operating Company or AIOC, led by British Petroleum (developing the Azeri, Chirag, and Gunashli fields). The United States backed the construction of a large (1 million barrels per day capacity) oil pipeline from Azerbaijan through Georgia to Turkey's Ceyhan seaport on the Mediterranean (the Baku-Tbilisi-Ceyhan or BTC pipeline) as part of Azerbaijan's economic development, and because this route neither allows Russia to gain undue control over Azerbaijan's resources nor forces Azerbaijan to seek export routes through Iran. Construction began in 2003 and the first tanker was filled in Ceyhan in mid-2006. A gas pipeline from Azerbaijan's offshore Shah Deniz field to Turkey was completed in March 2007. In mid-November 2007, Greece and Turkey inaugurated a gas pipeline connecting the two countries that permits some Azerbaijani gas to flow to an EU member-state. An extension is planned to be built to Italy to complete this Turkey-Greece-Italy (TGI) pipeline project.

At a meeting in early May 2009 in Prague, the EU, Azerbaijan, Georgia, Turkey, and Egypt signed a declaration on a "Southern [energy] Corridor" to bolster east-west energy transport. The declaration called for cooperation among supplier, transit, and consumer countries in building the proposed Nabucco gas pipeline from Turkey to Austria, finishing the Italian section of the TGI pipeline, and other projects. Richard Morningstar, the U.S. Special Envoy for Eurasian Energy, stated that the Obama Administration supported the "Southern Corridor" program and considered "Eurasian energy issues to be of the highest importance."²⁷

Azerbaijan's State Oil Company (SOCAR) and Russia's Gazprom gas firm agreed in July 2009 that SOCAR would send 1.7 billion cubic feet of gas per year to Russia beginning in 2010. The gas would be transported by a 140-mile gas pipeline from Baku to Russia's Dagestan Republic that was used until 2007 to supply Azerbaijan with up to 282.5 billion cubic feet of gas per year. SOCAR indicated that the volume of gas transported to Russia could increase in future years. Azerbaijan also supplies some gas to northern Iran. Azerbaijan is not projected to have enough gas to fill the Nabucco pipeline, so other gas suppliers such as Turkmenistan are needed.

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²⁷ U.S. Department of State. *Press Release: Remarks at the EU Summit "Southern Corridor-New Silk Road,"* May 8, 2009.