

Trade, Investment Take Center Stage At Russia-Azerbaijan Summit.

Rovshan Ismayilov
EurasiaNet, NY ; 28/2/2006

Experts believe Russian President Vladimir Putin's recent visit to Azerbaijan marks a shift in the emphasis of bilateral relations to business and trade.

Though a declaration on bilateral ties issued at the conclusion of the February 21-22 summit focused more on military matters, the visit's biggest impact could be in the economic sphere. A large wave of Russian investments now seems ready to flow into Azerbaijan.

Following the summit, the Azerbaijani government announced on February 24 that it plans to give a management contract for metals giant Azerbaijan Aluminum to the Russian company, RUSAL, mentioned by President Putin at the summit as a potential partner for metallurgy projects. According to Deputy Prime Minister Abbas Abbasov, the company plans to invest \$1 billion in the aluminum plant. RUSAL will replace the Dutch-owned Fondel Metal Participations BV, which had a 25-year contract to manage AZERAL. Fondel, which had a loose affiliation with former Economic Development Minister Farhad Aliyev, who was arrested for an alleged coup plot in October 2005, has charged that its contract was canceled for political reasons. [For background see the Eurasia Insight archive].

Changes may also be in the offing for oil transportation routes, a critical aspect of energy-rich Azerbaijan's relations with Russia.

According to Russian Energy Minister Viktor Khristenko, Moscow has given Baku a long-term agreement for oil exports via the Baku-Novorossiysk pipeline. Since 1996, the Baku-Novorossiysk agreement with Russia has been renewed on an annual basis. More than 4 billion tons of oil were transported through Baku-Novorossiysk in 2005, but with the rival Baku-Tbilisi-Ceyhan pipeline scheduled to start transporting Azeri oil by the end of 2006, the northern pipeline to Russia will become less important. At a February 23 panel on energy issues, Azerbaijani Energy Minister Natic Aliyev said that not much more than 3 million tons of Azerbaijani oil could be shipped via the Baku-Novorossiysk pipeline each year.

One projected energy deal, however, failed to materialize at the summit. Despite experts' predictions, Russia's LukOil did not take over the gas station monopoly held by Azerbaijan's largest oil company, AzPetrol. (AzPetrol's head, Rafik Aliyev, brother of the former economic development minister, was also charged in connection with the October 2005 coup plot).

On the eve of the summit, President Putin had expressed a desire for Russian-Azerbaijani trade to at least double from its current \$1 billion per year. Transportation will play a key role in any such expansion. Although no official details were released, the expansion of a North-South transport corridor was discussed during

the Russia-Azerbaijan Economic Forum, which took place in Baku on February 22. Some \$780 million are scheduled to be invested on road construction from the Russian-Azerbaijani border to Azerbaijan's border with Iran, according to Elshan Mammadzade, head of the Azerbaijani Economic Development Ministry's Department of Economic Forecasting. Some of the subcontracts for these projects are open for bids from Russian companies. Ferry transportation from the Russian city of Astrakhan on the Volga River, which joins the Caspian Sea, and the other Caspian Sea states is a related transportation project also under discussion. Some experts argue that the expected trade benefits from increased access to Russia and Iran will make the Azerbaijani infrastructure improvements cost-effective.

Azerbaijan's proximity to Iran enhances Russia's interest in forging better ties with Baku, commented Ilgar Mammadov, an independent political analyst. "First of all, it is of utmost importance to make sure that Azerbaijan will not join [potential United Nations] sanctions

imposed on Iran and will not close its border. On the other hand, given that Moscow and Tehran agreed on contracting Russian companies for Iran's nuclear projects, it is important for Russia to ensure Baku's willingness to allow transportation of components for nuclear facilities through its territory," Mammadov said. On February 26, Russia and Iran announced tentative plans to form a joint venture for processing uranium to be used in Iranian nuclear power plants.

Moscow has presented the deal as an alternative to imposing international sanctions on Iran to force it to abandon its nuclear research program. [For background see the Eurasia Insight archive].

The Russian-Iranian deal is a reflection of Moscow's desire to reestablish itself as the Caspian Basin's main geopolitical player.

"It is our [Russia's] region," Putin stated. Before a closed-door session between Putin and President Ilham Aliyev, Russian presidential aide Sergei Prikhodko echoed that sentiment, telling journalists that "Russia appreciates the restrained position of Azerbaijan about the presence of third countries' bases on its territory."

Rasim Musabekov, another independent political analyst, argued that Azerbaijan's business relations with Russia will still pale in comparison with its trade with Turkey, the United States and the European Union. Half of Azerbaijan's foreign trade is with European Union member states, he added.

Some experts have stated that the emphasis placed on business rather than military ties marks a change in Russian policy toward Azerbaijan. Nonetheless, military partnership has its place. The declaration that outlines the future course of Russian-Azerbaijani relations focused on military-technical cooperation and the fight against drugs and arms trafficking on the Caspian Sea, both topics already covered during a recent visit by Defense Minister Sergei Ivanov to Baku. [For background see the Eurasia Insight archive].

Mammadov believes that the change in focus stems from Moscow's desire to reduce Azerbaijani enmity toward Russia that stems from Moscow's support for Armenia during the initial stages of the Nagorno-Karabakh

conflict. [For background see the Eurasia Insight archive]. "Russia is using economic and cultural ties as a tool to strengthen its position in the region. In the past, they used another language. This development is good for both countries," Mammadov said.

Yet the pomp and ceremony on show to welcome Putin to Baku - his third visit since 2001 - reminded some observers of an earlier era.

"In no country in the world have such celebrations taken place, former presidential foreign policy advisor Vafa Guluzade said in a February 19 interview with ANS TV. "It reminds me of Soviet times."

Editor's Note: Rovshan Ismayilov is a freelance journalist based in Baku.
