
Oil Fuels More Independent Azerbaijan.

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A RAILROAD DEAL WILL SOON LINK THE EX-SOVIET OUTPOST TO EUROPEAN MARKETS.

Only recently, Azerbaijan was just another former-Soviet outpost with a Russia-sized chip on its shoulder. Today, it's aglow with the self-confidence that only an oil windfall can bring.

The recently completed Baku-Tbilisi-Ceyhan oil pipeline - stretching to Turkey via Georgia - has turned this country on the Caspian Sea, which gained independence in 1991, into one of the fastest-growing economies in the world with a GDP that leapt 32.5 percent last year.

And with oil revenues expected to top \$100 billion in the next 10 years, Azerbaijan has been giving itself a makeover. As demands swell for space and resources, the national overhaul will include nine new bridges, a beltway that will loop around its capital, Baku, and a multimillion dollar water pipeline.

But the windfall has had another effect - it has given Azerbaijan unprecedented independence in dictating its own affairs, spearheading the kinds of linkage projects the West has promoted and funded in the Caucasus for a decade.

"Azerbaijan has been able to play a more independent role because of its oil wealth and, quite frankly, a very able political leadership," says Stephen Blank, professor of national security studies at the US Army War College Strategic Studies Institute. "That gives Azerbaijan a certain amount of leverage."

Others are concerned that Azerbaijan's newfound confidence will only exacerbate the country's dire record on corruption and human rights.

"Many people think that the international community has turned a blind eye to Azerbaijan's worsening democratic practices because of commercial interests and its strategic advantage," says Baku-based International Crisis Group analyst Vugar Gojayev.

The presidents of Azerbaijan and Georgia met with Turkey's prime minister on Feb. 7 in Tbilisi to inaugurate an ambitious new project - a 160 mile, \$420 million railroad linking the three countries and providing the shortest distance for commercial traffic between Europe and Central Asia. Construction should be complete by the end of 2008.

At the signing, Georgian President Mikhail Saakashvili called the railroad "a project that signals a geopolitical transformation in our region," using language that echoed that of the US in the early 1990s, when it first pushed the Baku-Tbilisi-Ceyhan pipeline to develop an energy corridor that bypassed Russia.

This time around, though, the US refused to finance the railroad unless neighboring Armenia, which has been in a 15-year standstill with Azerbaijan following a brutal war over contested territory, was allowed to take part.

Local officials said they didn't need international aid. Instead, Azerbaijan offered to pick up Georgia's \$220 million tab, to be repaid over 25 years at an annual interest rate of 1 percent.

And while the railroad will bring modest gains to Georgia, it is Azerbaijan that stands to benefit most. A link to Turkey will allow it to ship up to 20 million tons of goods each year straight to its prime target: Europe.

"Azerbaijan wants to be as close to Europe as possible," says Khazar Ibrahim, spokesman for Azerbaijan's Ministry of Foreign Affairs. "We think that this railroad will be another step."

Europe wants closer ties to Azerbaijan, as well, at least according to German Chancellor Angela Merkel, whose country holds the EU presidency this year. Following a recent meeting with Azerbaijani President Ilham Aliyev in Germany, she announced a "serious interest in expanding our mutual economic links."

The surest sign of Azerbaijan's growing clout came this December, when Russia announced that it had doubled Georgia's gas prices - an increasingly used pressure point for former Soviet countries on the outs with Russia. Georgian and Russian relations reached an all-time low this past year.

Azerbaijan intervened, promising to supply Georgia with low-priced gas. "Azerbaijan made a very strategic decision to help Georgia out, despite pressures from the Kremlin," says Baku-based political analyst Fariz Ismailzade. "They're securing a stable Georgia and, with it, a stable transit zone for their own exports."

Afterward, Russia announced that gas prices for long-time ally Azerbaijan would be doubled, too, despite previously solid relations and a 2004 deal that promised stable prices until 2009. While some argued that Russia raised prices to meet its own increasing gas demands, Azerbaijani politicians saw the increase as Russia's attempt to stop it from exporting to Georgia.

In a Jan. 19 Wall Street Journal op-ed, Azerbaijani Foreign Minister Elmar Mammadyarov wrote that Russia had given "more than a market message" that it is "unacceptable for Azerbaijan" to help Georgia.

President Aliyev told a Moscow radio station that Azerbaijan would not be "subject to commercial blackmail."

Instead, Azerbaijan shut off oil exports to Russia, while debating whether to also pull Russian networks off the air in retaliation.

"If they didn't have the margin for maneuver they now have, they probably wouldn't have taken the chance. They knew they could stand up to Russia and not get hurt," says Mr. Blank of the US Army War College.

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