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# Heydar Aliyev's Energy and Infrastructure Strategy

*Vitaliy Baylarbayov*

National Leader Heydar Aliyev had an exceptional understanding of foreign policy and national security dynamics. Through his strategic vision, he was able to lead the Republic of Azerbaijan from a situation of state collapse at independence to one characterized by political, economic, and security viability. Moreover, Heydar Aliyev's geopolitical strategy enabled Azerbaijan to conduct independent policies, not dictated by any regional or global power. In support of his geopolitical strategic vision, Heydar Aliyev conceived of and executed an energy and infrastructure strategy that enabled Azerbaijan to become a major oil and natural gas producer and, in turn, to change the energy map of the Caspian region

and the European continent. The core of this policy was the establishment of the East-West corridor from the Caspian region through Georgia and Türkiye to the West.

## *Azerbaijan's Strategic Position at Independence*

The Republic of Azerbaijan holds a strategically significant geopolitical position. Being landlocked, Azerbaijan necessitates fostering good relations to facilitate trade and transportation links to global markets. Upon the restoration of its independence in 1991, Azerbaijan confronted the challenge of war initiated by Armenia, resulting in the occupation of nearly twenty percent of its

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territory. When Heydar Aliyev assumed the leadership of Azerbaijan in June 1993, one in nine Azerbaijanis were either refugees or Internally Displaced Persons (IDPs): on the eve of the country's independence, Yerevan evicted over 300,000 ethnic-Azerbaijanis from its territory, who fled mostly to Azerbaijan. These refugees were joined by over 750,000 additional Azerbaijani IDPs that Armenia expelled as it conquered Azerbaijan's territories in the former Nagorno-Karabakh Autonomous Oblast and seven surrounding regions. In 1993, Heydar Aliyev inherited a collapsed state characterized by the breakdown of most state institutions: economy, judiciary, education, and health systems.

Despite this dire situation in the early independence period, Heydar Aliyev identified a grand strategic path forward for Azerbaijan. This strategy included balanced relations with competing alliances and the adoption of an ambitious energy export and infrastructure policy, which

supported his multi-directional foreign policy.

## *Infrastructure Strategy*

Infrastructure played a large role in Heydar Aliyev's strategic thinking. He integrated infrastructure projects into Azerbaijan's foreign policy and national security policies. This contrasts with the approach of most leaders in the West, who by and large delegate infrastructure development to the private market and rarely form infrastructure strategies, let alone those that serve to reinforce foreign policy and

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national security goals. Western leaders think of virtual mechanisms to facilitate trade and transportation like trade agreements, while Heydar Aliyev's strategic approach emphasized the importance of establishing concrete, physical infrastructure to enable new routes of cooperation.

Heydar Aliyev was a main architect of the East-West energy and transportation corridor that

enabled the states of the South Caucasus and Central Asia to cooperate with the West. His vision was clear: if the new states emerging from the collapse of the Soviet Union were to be dependent on any state for their transportation and trade, then they would not be able to conduct independent foreign policies. Thus, Azerbaijan needed to establish multiple, concrete trade routes to the West to complement its infrastructure connections with its immediate neighbors.

Heydar Aliyev's East-West corridor vision was not limited to the South Caucasus but extended to Central Asia. Accordingly, infrastructure projects, such as the Baku-Tbilisi-Ceyhan oil pipeline (BTC), were built with extra capacity beyond Azerbaijan's needs, so that it could also accommodate Central Asian oil exports at a future point. When deliberating in the early 2000s on the proposed capacity of the BTC, Heydar Aliyev decided that the capacity should be larger than the needs for Azerbaijan's peak oil export, because, as he put it, "Central Asia's oil will come in the future."

Heydar Aliyev believed that the Central Asian producers would eventually decide to export significant oil volumes across the Caspian to the West and that Azerbaijan's

pipeline infrastructure should be built with this in mind. Heydar Aliyev invited Kazakhstan to sign the inter-state agreements that established the East-West corridor.

Heydar Aliyev's vision proved correct: in recent years, significant volumes of crude from Kazakhstan and Turkmenistan have been exported via the Caspian Sea through the BTC pipeline to international markets.

### *Energy Export Strategy*

Azerbaijan—the birthplace of the modern oil industry—played a pivotal role in producing half the world's oil during the early twentieth century. Accordingly, it was natural that increasing Azerbaijan's oil and natural gas production would contribute greatly to jumpstarting the Azerbaijani economy in its post-independence period.

However, there were several impediments to the establishment of major oil and natural gas production in Azerbaijan following the collapse of the Soviet Union. First, Azerbaijan's landlocked status necessitated establishing a reliable export route, adding both risk and costs to exports. Second, when Azerbaijan sought foreign

investment in its oil sector, the global oil price averaged just \$12 a barrel, diminishing commercial interest in costly new production projects. Third, Azerbaijan's conflict with Armenia, as well as other conflicts taking place in Azerbaijan's neighborhood, introduced an additional layer of risk to investments in Azerbaijan.

Despite these challenges, Heydar Aliyev persevered and succeeded in attracting major international investments to Azerbaijan's oil and gas sector. In September 1994, Azerbaijan signed the Contract of the Century with 11 major oil companies from seven countries. Heydar Aliyev's keen geopolitical understanding produced exceptional policies that succeeded in attracting investment to Azerbaijan's energy sector whilst generating extensive international geopolitical support.

Collaborating with Georgia's President Edward Shevardnadze and Türkiye's President Süleyman Demirel, Heydar Aliyev effectively conveyed the geopolitical

significance of the East-West Corridor to the global community. Unlike many other foreign policy issues, bipartisan support from both the United States and Europe has sustained the promotion of the East-West energy and transport corridor for over three decades.

Heydar Aliyev formulated the Baku-Tbilisi-Ceyhan route for its main oil export based on key principles. Being a landlocked state, Azerbaijan needed its main export route to transit through allied countries. In addition, he reasoned that the

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route should pass through states that are *not* major oil exporters, as these countries might prioritize their own oil shipments.

Thus, alongside existing routes through Russia and Georgia, a new major oil export route through Georgia and Türkiye emerged. Türkiye, a NATO member, brought to bear the weight of the Alliance's interest in establishing an energy export stream from the Caspian to the West. As Heydar Aliyev stated during the BTC pipeline laying ceremony in September 2002,

The number of pipelines increases. Of course, these are of a very large economic nature. But not only *economic*, we believe that what we do, Baku-Tbilisi-Ceyhan bears a *political* character. This project and its implementation can be a guarantor of peace, tranquility, and security in the Caucasus region. This pipeline, this steel pipe, will connect Azerbaijan, Georgia, and Turkey more closely.

The Baku-Tbilisi-Ceyhan route had the added advantage of bringing oil to the Mediterranean region, which has multiple consumers—thus producing an additional diversification of markets—and a robust price environment. In addition, as the BTC was being developed, Baku developed cooperation with Israel, which expressed interest in being supplied with regular oil imports from Azerbaijan. Cooperation between Azerbaijan and Israel grew significantly over the years, developing into a strategic alliance.

Heydar Aliyev identified a strategy that successfully attracted foreign investments to Azerbaijan's oil and natural gas sector, despite the handicaps. He assessed that although there is oil and gas everywhere on the globe, what receives investment in the end is not set just by “below the ground” factors (geology) but

also by “above the ground” factors like legal protection and regulatory stability. Energy-producing regions that are successful over long periods are those that possess a stable regulatory framework. Thus, from the early days of Heydar Aliyev's presidency, Azerbaijan demonstrated a strong commitment to the sanctity of contracts. Azerbaijan has never attempted to revise the conditions of any of the Production Sharing Agreements (PSAs) Baku signed with foreign investors. Azerbaijan's parliament has gone so far as to adopt these PSAs as part of national legislation.

In addition, Azerbaijan was attractive for investment since it offered foreign investors specially designed PSAs. PSAs enabled foreign companies to “book” the volumes produced there, which was important per their traditional business model. The significance of this is quite important to understand. Companies can count oil volumes produced within a PSA or concession license as part of their reserves, which affects their company value. In contrast, oil volumes produced as part of service contracts, which is generally what was offered at the time by national oil companies to international oil companies, cannot be “booked” as volumes. In the years before the collapse of the Soviet Union, international oil

majors faced increasingly narrow opportunities to take ownership stakes in projects. In this period, few oil exploration and production basins were offering commercial conditions to foreign companies that would allow the companies to “book the volumes,” and thus Azerbaijan was an exception in this period.

Azerbaijan's energy production strategy also helped attract geopolitical support for the young state's independence. In the 1990s and 2000s, the United States devoted high-level political efforts to promoting Caspian energy exports. U.S. President Bill Clinton referred to the agreement to establish the BTC as one of the most important foreign policy accomplishments of 1999. Following the inauguration of the Baku-Supsa pipeline on 15 April 1999, Clinton declared:

The opening of the Baku-Supsa line fulfills a long-sought goal—a network of multiple pipelines to bring the Caspian region's oil and gas to world markets. But the benefits of this pipeline go far beyond the energy sector. The line will serve as the cornerstone of an East-West corridor that can promote economic cooperation and growth among the countries of the Caucasus and Central Asia.

While Heydar Aliyev succeeded in convincing many countries of the strategic value of the East-West energy corridor, Baku still had to contend with the investing companies that supported the shortest and what was perceived as the cheapest routes—through Russia to the Black Sea or through Iran to the Gulf. As stated at the time of the debate by Chevron Overseas Petroleum president Richard Matzke, “the Baku-Ceyhan option probably isn't the most rational solution at the moment.” Most of the involved international oil companies believed that exporting oil through Russia or Iran would be stable if Russia and Iran benefitted from transit fees. However, Heydar Aliyev insisted on maintaining the operation of multiple oil export pipelines in addition to BTC, so that Baku would not be dependent on a single route.

As part of its multiple pipeline policy, Azerbaijan has maintained oil export infrastructure through Russia via a northern route (the Baku-Novorossiysk pipeline). In addition, Azerbaijan maintains a pipeline to the Georgian Black Sea port of Supsa (the Western Route Export Pipeline) and also exports small amounts of oil by rail through the Georgian ports of Batumi and Kulevi.

Diversification is a cornerstone of an energy security policy, for both producers and consumers. Heydar Aliyev applied this principle to all aspects of Azerbaijan's energy strategy and major infrastructure. Accordingly, he viewed that the oil export projects would be more stable if "multiple flags" were attached to pipeline projects. Thus, Aliyev invited companies from multiple geographic locations and opposing alliance systems to invest in Azerbaijan's energy production and export infrastructure.

Like Azerbaijan's multi-directional foreign policy, Heydar Aliyev believed that Azerbaijan should trade energy and conduct business with different partners, with no discrimination. Thus, American, European, Indian, Iranian, Japanese, Russian, and other companies participate in Azerbaijan's strategic energy projects. Moreover, according to Heydar Aliyev, energy trade should not be used as a weapon to further geopolitical goals, but rather that an advantage of trade with Azerbaijan was its stability.

At the same time, Heydar Aliyev was keenly aware that in the energy trade, geopolitics is a factor motivating many players and that the country must be adequately prepared to meet potential challenges. Many in the energy industry think that as long as profits are flowing, countries will act rationally and continue to trade energy, allow transit, and so on. Heydar Aliyev thought differently: he understood that geopolitics will always be a major factor in energy and thus cannot be ignored.

### Energy Legacy

Heydar Aliyev's legacy continues to shape Azerbaijan's foreign, infrastructure, and energy export policies. Azerbaijan engages in cooperation with states from different strategic groupings and refrains from joining a rigid alliance group. In parallel, Azerbaijan trades energy and works with investors in multiple countries, regardless of political orientation. Most important to Baku, Azerbaijan conducts an independent foreign

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policy. Azerbaijan's Southern Gas Corridor project, which was led by Heydar Aliyev's great successor, Ilham Aliyev, reflects these strategic lessons.

As Azerbaijan and SOCAR keep developing new energy projects, the legacy of

Heydar Aliyev continues to guide us. President Ilham Aliyev has continued to articulate the vision of Azerbaijan's independent policies, stating in October 2023 at the opening ceremony of the 74th International Astronautical Congress in Baku:

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And now, when we are independent, our natural resources serve the benefit of our people. The rapid transformation during the years of independence is actually a demonstration of the proper use of our natural wealth. For some countries that are rich in oil resources, oil is a curse. For us, it was the way to develop, to strengthen our independence, to protect our identity, and to build a strong economy.

President Ilham Aliyev has also stressed that a major component of

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*A new energy security model must be identified for increased use of renewables, without increasing the consumption of coal. Access to affordable and secure natural gas supplies will enable the increased consumption of renewables, without backup from coal.*

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his strategy is that "the territory of Azerbaijan will not serve as the battleground" of conflicts between powers.

Like the BTC, the Southern Gas Corridor, which was developed under the guidance of President Ilham Aliyev, bears the imprint of mul-

multiple flags of investors and natural gas buyers. Also, like the BTC, the Southern Gas Corridor was built with extra capacity and is scalable since Baku foresaw a growth in demand for gas from Azerbaijan. In fact, by the time the project became fully operational in late December 2020, consumers were expressing interest in receiving additional volumes.

Unlike so many countries that try to ignore the relevance of energy for national security and the role of energy in national security, both Heydar Aliyev and Ilham Aliyev stressed the importance of energy security to national security. At the February 2015 meeting of the Southern Gas Corridor Advisory Council meeting, President Ilham Aliyev stated:

The Southern Gas Corridor is an energy security project. This is energy security for us. Because Azerbaijan will have the opportunity to export large volumes of natural gas to international markets. It is also energy security for consumer and transit countries. Because today, energy security cannot be considered separately from the national security of any country.

Another aspect of continuity between the energy strategy conceived and executed by Heydar Aliyev and Ilham Aliyev is the principle of diversification. As the latter has stated,

Energy resources [and] diversification are the main factors in the industrial and economic development of any country. Countries with abundant natural resources are certainly in a secure position because they are not dependent on external supplies.

### *From Oil and Natural Gas—to Energy*

Looking back at Azerbaijan's energy policies over the past three decades, it is clear that Azerbaijan has read the markets, technological trends, and energy security needs differently than most other players.

In the 1990s, the companies investing in the Azerbaijani energy sector wanted the shortest and cheapest main export pipeline possible. In contrast, Azerbaijan insisted on the diversification of its oil export routes and the establishment of the main ones through allied countries—Türkiye and Georgia. This has proven to be reliable.

In the 2010s, when EU companies and governments thought that there was no more need for new natural gas volumes, Azerbaijan correctly read the EU's market and energy security needs and built the Southern Gas Corridor. Today, a growing number of European countries seek additional gas volumes via the Southern Gas Corridor.

The next stage of Azerbaijan's unique policies is moving from oil and natural gas to energy. Azerbaijan seeks to promote policies that can utilize both fossil fuels and renewable sources of energy. Baku seeks to enable the lowering of carbon emissions and environmental impact while ensuring energy security.

So far, it seems to have gotten this balance right: many states that have increased the role of renewable energy in their fuel mix have also

increased their consumption of coal, in order to maintain the security of supply. Access to affordable and secure natural gas supplies will enable the increased consumption of renewables, without backup from coal. Switching from coal to natural gas remains the quickest and most affordable mechanism for lowering carbon emissions.

A new energy security model must be identified for the increased

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use of renewables, without increasing the consumption of coal. In addition, the energy industry needs to lower emissions generation and pollution from our energy production. In 2024, Azerbaijan will host COP29 and will seek to identify new and best models of averting climate change and lowering pollution, while ensuring global energy security and advancing workable climate finance mechanisms. **BD**

