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# **The State as a (Oil) Company? The Political Economy of Azerbaijan\***

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## Abstract

In 1993, Azerbaijan was a country at war, suffering heavy human and economic losses. It was then the very example of a failing country in the post-soviet in the aftermath of the collapse of the USSR. More than 15 years after, it is one of the main energy partners of the European Union and is a leading actor in the Eurasian oil sector. How did such a change happen? How can Azerbaijan have become so important in the South Caucasian region in such a short notice? This paper will focus on the Azerbaijani oil transportation network. It will investigate how the Azerbaijani oil company SOCAR and the Azerbaijani presidency are progressively taking over this network, perceived as the main tool of the foreign policy of Azerbaijan. Dealing with the inner dynamics of the network, this paper will highlight the role of clanic and crony capitalist structures in the makings of a foreign policy and in the diversification of an emerging oil company.

Keywords: Azerbaijan, Network, Oil, South Caucasus, SOCAR.

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## *Introduction*

Since 1991, Azerbaijan has drawn the energy sector's attention, first for its oil reserves and now for its gas ones. This has been the source of political and commercial competition between the European Union (EU), Russia and the United States. In this 'game' (Kleveman 2004), Baku succeeded to keep a rather straightforward position, balancing between its will to send its hydrocarbons resources to the EU and its need not to upset Russian interests. Until now, this policy has been a success and one may assume that this capacity to balance European and Russian influence, as well as American one, is largely due to the experience of Azerbaijan dealing with foreign actors.

As early as in 1989, Azerbaijan was depicted as a new 'oil bonanza' (Rasizade 2002). In the meantime, Azerbaijan started to negotiate on its own with foreign oil companies, facing at the same time pressure from Russia, Turkey and the United States. The discussions were mostly about Azerbaijani oil, supposed to be mostly located in the fields of Azeri, Chirag, Guneshli and Shah Deniz. It then occurred that the first three fields were actually only one giant oil field and the latter was a gas one. The negotiations for the production of Azeri-Chirag-Guneshli (ACG) oil ended with the signing of the 'Contract of the Century' – the production sharing agreement (PSA) – in Baku on 20 September 1994. For eight billion dollars, ten foreign oil companies<sup>1</sup> won the right to exploit for the next 30 years the resources from these fields, estimated then at 5.4 billion barrels of oil. These companies are reunited under a single umbrella: the Azerbaijan International Operating Company (AIOC). Until 1999, Amoco and BP jointly operated this consortium. After these two firms' merger, AIOC has been – and still is – only operated by BP.

Right after the signing of the PSA came the issue of Azerbaijani oil exportation. The Caspian Sea is landlocked and the foreign companies knew that they would have to do what the Nobel brothers did a century ago: to build an oil pipeline to reach the European markets. After long and tense negotiations (LeVine 2007), three oil pipelines came to reality. The Baku-Novorossiysk pipeline, also known as the Northern Route Export Pipeline (NREP), was inaugurated in 1997. Then, the Baku-Supsa pipeline, also known as the Western Route Export Pipeline (WREP), was commissioned. Finally, while the formers only reach the Black Sea (either on the Russian coast or on the Georgian one), a pipeline linking the Caspian and

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<sup>1</sup> These companies were Amoco, BP, Delta-Nimir, Lukoil, McDermott, Pennzoil, Ramco Energy, TPAO, Statoil and Unocal.

the Mediterranean Seas – the Baku-Tbilisi-Ceyhan (BTC) – came into service in May 2005. These pipelines, as well as the Baku-Batumi railroad, transported in 2008 around 49.3 million tons of oil<sup>2</sup>. Most of its oil ‘was’ Azerbaijani (42 million tons) while the left over came from Kazakhstan, essentially from the Tengiz oilfield.

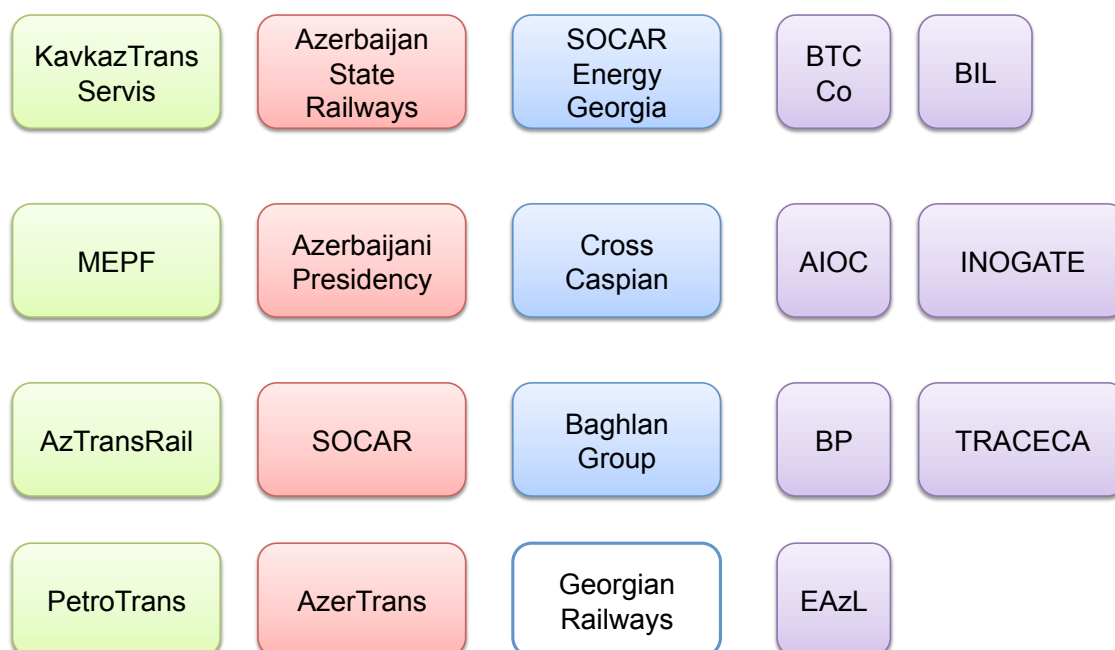


Figure 1. The actors within the Azerbaijani oil transportation network in 2010<sup>3</sup>

These export routes, as well as the South Caucasus Pipeline that transports Shah Deniz gas to Erzurum in Turkey, are part of what I call the South Caucasian hydrocarbons transportation complex system. This concept, which echoed that of ‘complex unity’ of Whitehead<sup>4</sup>, refers to a system ‘made up of networks of heterogeneous, complementary and interdependent agents’ (Ferrary and Granovetter 2009, 329). In this case, this complex system is made of three different networks: the Kazakhstani oil transportation network, the Azerbaijani oil transportation network and the Azerbaijani gas transportation network. These networks, as well as the complex system they are part of, do not exist by themselves and are rather built and designed by the researcher to follow associations and connections made up between

<sup>2</sup> *Trend Oil & Gas* 29, 16 November 2009.

<sup>3</sup> Legend: In green, the companies owned or controlled by Azersun Holding. In red, the companies owned or controlled by the Azerbaijani presidency. In blue, the joint ventures owned and controlled simultaneously by the Azerbaijani presidency and Azersun Holding. In white, the company with no known affiliation. In purple, the companies and programs with Western or transnational ownership.

<sup>4</sup> For an overview of this concept, see Tor Hernes, *Understanding Organizations as Process. Theory for a Tangled World* (Oxon: Routledge, 2009).

actors (Latour 2005). The construction of an Azerbaijani oil transportation network helps analyzing the interactions between the actors involved in the Azerbaijan oil transportation business. This heuristic network is not stable and fixed. It rather evolves over time, due to the expansion of its non-humans components (mostly pipelines) and to the enrolment of new actors<sup>5</sup>. And when the network changes, so does its inner structure.

Another characteristic of this heuristic network is the huge variety of actors that are involved in it. Oil corporations, railways companies, governments or international organizations co-exist within the Azerbaijani oil transportation network, sometimes linked to each other<sup>6</sup>. All these ties are encompassed within a normative network, understood as ‘a relevant series of linkages existing between individuals which may form a basis for the mobilization of people for specific purposes under specific conditions’ (Whitten and Wolfe 1974, 720)<sup>7</sup>. Three kinds of ties may be distinguished. First, commercial relationships may link some actors to each other. The relations are here based on the respective competitive advantages of the relevant actors. Then, some ties may exist within a crony capitalist structure. This is a system where ‘private-sector businessmen benefit enormously from close relations with leading officials and politicians, obtaining not only protection from foreign competition, but also concessions, licenses, monopoly rights, and government subsidies’ (White 2004, 389). Finally, some ties are also based on a common affiliation to a clan, i.e. ‘an informal organization built on an extensive network of kin and fictive, or perceived and imagined, kinship relations’ (Collins 2006, 25). These different kinds of linkages are not fixed, they may change according to an evolution of the actors, such as a merger for a company, or of their organizational structure (for a government for instance), or to a redefinition of the terms of the linkage (between two companies for example).

The existence of clanic and crony capitalist links within the Azerbaijani oil transportation network is likely to further contribute to the blurring between public and private actors in Azerbaijan. Indeed, especially in the oil and gas sector, energy and politics are highly related in this country. For instance, the President of Azerbaijan, Ilham Aliyev, is not only the son of the former President. He also used to be a vice-president of the national oil company SOCAR (State Oil Company of Azerbaijani Republic) and was in charge of building links between

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<sup>5</sup> For instance, Devon Energy, which is part since 1994 of the Azerbaijani oil transportation network as a shareholder in the AIOC, will leave it after it decided to sell its Azerbaijani asset in late November 2009. This will mean the replacement of this oil company by a new one, and thus a new change within this network.

<sup>6</sup> For a table presenting the Azerbaijani oil transportation network, see appendix 2.

<sup>7</sup> For a criticism of this concept of network, see France Bourgoin, *From Network to Class? Towards a more complex Conception of Connection and Sociability* (Copenhagen: DIIS Working Paper 31, 2009), <http://www.diis.dk/sw87462.asp> (accessed 22 December 2009).

SOCAR and the Azerbaijani presidency. Moreover, in 1997, the then Azerbaijani minister of Foreign Affairs Hasan Hasanov stated that the oil reserves of Azerbaijan ‘don’t only define our foreign affairs policies but also the attitude of other countries toward’ Azerbaijan<sup>8</sup>. The successors of H. Hasanov then have all made them this statement. Energy and politics in Azerbaijan are not only related, they are deeply intertwined. Hence, one may assume that the evolution of the Azerbaijani oil transportation network may lead to a change in the foreign policy of Azerbaijan.

To deal with this assumption, it is necessary to look more closely at the Azerbaijani oil transportation network and at the interactions between the actors of the South Caucasian oil industry that have helped developing it. One may see that a division of leadership characterizes this heuristic network. Then, within one part of the latter, some actors are more and more competing to control the rail transportation of Azerbaijani oil. Finally, the Azerbaijani oil transportation network gives the opportunity to Azerbaijan and SOCAR to improve their economic and political position on the regional scene. In order to deal with these hypotheses<sup>9</sup>, I have drawn the following research question: to what extent does the increasing activism of SOCAR within the Azerbaijani oil transportation network help Azerbaijan becoming a regional (economic) leader in the South Caucasus?

This research paper would be divided into three parts. First, I will show that two ‘leaders’ (the Azerbaijani presidency and BP) characterize the Azerbaijani oil transportation network. Then, I will demonstrate that there is an increasing competition within the oil rail transportation sub-network. Finally, I will put into question the capacity of Azerbaijan to take advantage of this network to develop its role on the international scene and to promote its economic interests.

## **1. A typology of the Azerbaijani oil transportation network in the South Caucasus**

Drawing an Azerbaijani oil transportation network is not an easy task. From 1992 to nowadays, it has experienced a huge variety of changes. It has been framed again and again, some actors have joined it and others have left it, some non-human components have also been added. However, two components of the network still remain the same. First, this

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<sup>8</sup> Anne Nivat, “Hasan Hasanov ‘Oil is Our Destiny’”, *Transitions*, September 15, 1997.

<sup>9</sup> The two first hypotheses are *a posteriori* while the last one is *a priori*.

network has been built progressively in the 1990s. Second, the network has two ‘leaders’ and is thus bi-centred.

### ***1.1. The construction of the Azerbaijani oil transportation network***

The negotiations for the exploitation of Azerbaijani oil reserves officially started in 1989 when the Scotland-based oil company Ramco Energy arrived in Baku. It opened the door for further discussions between the Azerbaijani authorities and the other foreign companies, notably Amoco, BP/Statoil<sup>10</sup> and Chevron. The former was fully aware of the main concern of the international firms: how to transport Caspian oil to world energy markets? In 1991, the Azerbaijani presidency, then headed by Abdulfaz Elchibey, hired the Scottish company JP Kenny to study potential routes to export Caspian oil. If more than 30 options were evoked, only a few remained in the final feasibility study: implementing a swap exchange between Azerbaijan and Iran, building a pipeline going from Baku to Ceyhan, re-commissioning former Soviet pipelines in Georgia or in Russia among others. This very first delimitation framed the emerging Azerbaijani oil transportation network. Geographically speaking, it was then made of only six states: Azerbaijan, Armenia, Iran, Russia, Georgia and Turkey. Among these states, some soon acknowledged that they might take advantage both politically and economically from the transportation of Azerbaijani oil. In 1992, Georgia began discussions with Azerbaijan related to the re-commissioning of the Baku-Supsa pipeline. In the meantime, BOTAS made a feasibility study on possible pipelines between Baku and the Turkish port of Ceyhan on the Mediterranean Sea. Baku took into consideration both proposals and saw what would be the political benefits from such routes. The then Azerbaijani president Elchibey was conducting a pro-Turkic policy and was looking for any opportunity to build bridges between his country and his Western neighbours Georgia and Turkey. The latter was for instance considered as a very useful partner to get Azerbaijan closer to the European Community and the United States (Lussac 2009).

The framing of the network was further limited after the first decisions were made regarding the exploitation of oil resources in Azerbaijan. In June 1991, under the President Mutalibov, Amoco was chosen to operate the Azeri oilfield. Then, in February 1992, Pennzoil and Ramco Energy were awarded the right to negotiate for the production in Guneshli. Finally, in September 1992, the BP/Statoil alliance was selected to negotiate the exploitation rights in

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<sup>10</sup> At that time, BP and Statoil were part of a single alliance to negotiate upstream assets.

Chirag. A couple of months later, five memoranda of understanding were signed between SOCAR and these foreign companies. The documents were aimed to confirm the decisions undertaken by the former Azerbaijani President Mutalibov and to further discuss the oil export opportunities. An *ad hoc* working group, reuniting Amoco, BP, BOTAS, Pennzoil, Ramco, SOCAR, Statoil and TPAO, was then established to further study the routes that may be used to transport Azerbaijani oil. In the final report delivered in February 1993, it was assumed that the best way ran from Baku to Ceyhan. Three different routes were proposed: one through Iran, another through Armenia and a final one through Georgia. Thus, the Azerbaijani oil transportation network was further limited: only few companies were part of it and its boundaries were dealing with five countries (Armenia, Azerbaijan, Georgia, Iran and Turkey).

But the successful coup by Heydar Aliyev in June 1993 led to a new deal. At the end of this month, the new president decided to freeze the negotiations, considering they were not enough beneficial to Azerbaijan. It was a huge blow for the foreign companies: some were expecting that the PSA for Azeri, Chirag and Guneshli<sup>11</sup> would be signed in June 1993. H. Aliyev's decision to start over with a clean slate strongly affected the discussions on the export of Azerbaijani oil. Contrary to A. Eltchibey, H. Aliyev advocated for a more balanced foreign policy, especially towards Iran and Russia. While they have been pushed out of the negotiations table during Eltchibey's presidency, the Russian company Lukoil and the Iranian one NIOC were back in the process, leading to frame again the Azerbaijani oil transportation network.

In addition to these new actors, there were also some changes within the Azerbaijani side. After the coup in June 1993, some new actors were enrolled and then dismissed within the network. In August 1993, H. Aliyev decided to replace SOCAR as responsible for the negotiations by an international working group headed by Marat Manafov. But, after he concluded an agreement without informing H. Aliyev, M. Manafov's team was dismissed to the benefit of SOCAR. The discussions started again and, after a difficult spring<sup>12</sup>, Azerbaijan and the foreign companies reached an agreement. On 20 September 1994, the PSA for the ACG oilfields was signed in Baku. Some parts of the Azerbaijani oil transportation network could then be determined: the AIOC, made of ten foreign companies, SOCAR and the Azerbaijani presidency were part of it.

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<sup>11</sup> In May 1993, SOCAR decided to 'unitize' these three oilfields. Heydar Aliyev confirmed then that decision.

<sup>12</sup> In April-May 1994, the negotiations had reached a deadlock and some foreign companies threatened SOCAR to leave Azerbaijan or to reduce their negotiating teams to very few people.



The PSA also helps further restricting the Azerbaijani oil transportation network. In this agreement, there was a Minimum Obligatory Working Program in which the companies in AIOC promised to achieve some tasks within the next 36 months. Among them was mentioned the need to realize a feasibility study on a future main export pipeline for ACG oil. In February 1995, the president of AIOC, Terry Adams, proposed H. Aliyev to produce early oil on the platform of Chirag 1. However, some transportation infrastructures were needed to transport this oil. This issue was very political and led to huge discussions between governments (notably between Azerbaijan, Russia, Turkey and the United States) and within AIOC (LeVine 2007). Finally, in October 1995, it was decided that Azerbaijani oil would flow through both Georgia and Russia. The Azerbaijani oil transportation network was thus further framed, with only three countries involved (Azerbaijan, Georgia, Russia).

A new step in the framing of the network happened in October 1999, when the sole operator<sup>13</sup> of ACG oilfields, BP, decided to support the BTC pipeline. Between 1996 and that date, this issue was a huge source of debates both within AIOC and between governments. Within the former, while BP, Exxon<sup>14</sup> and Lukoil were supporting the use, at least in the short term<sup>15</sup>, of the dual routes (the NREP and the WREP) and rejecting the need for a new infrastructure, Amoco, TPAO and Unocal were advocating to build the BTC pipeline. Turkey and the United States were heavily defended that option. So did Azerbaijan and Georgia, which understood the political gains they could retrieve from such a transportation infrastructure. In 1999, it was finally assumed that oil reserves in ACG would be around 5.4 billions barrels. It was considered as enough bankable to implement the BTC pipeline<sup>16</sup>. In the meantime, the United States and Turkey secured the financial aspects of the BTC project<sup>17</sup>. While the concerns regarding the reliability of the Turkish Straits were raising<sup>18</sup>, it became difficult for the advocates of the *status quo* to stop the process towards the implementation of this South Caucasian pipeline. On 17 October 2000, AIOC officially expressed its support to the BTC

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<sup>13</sup> While Amoco and BP jointly operated the ACG oilfields until 1998, the London-based firm became the sole operator of these oilfields after the merger between these two companies.

<sup>14</sup> Exxon bought stakes in the ACG oilfields in April 1995.

<sup>15</sup> The president of AIOC was for instance arguing to first upgrade the Baku-Supsa pipeline's transportation capacity to 500 000 barrels a day. According to him, it would have been worthy to build a pipeline from Tbilisi to Ceyhan only once the production in ACG would have reached 1 million barrels a day (Adams 2009).

<sup>16</sup> To be bankable, the ACG oilfields had to contain more than 4.5 billion barrels of oil. According to the latest figures, it would contain 6.9 billion barrels (*Trend Oil & Gas* 29, 16 November 2009).

<sup>17</sup> From 1993 to 1999, the national and international export agencies as well as the international financial institutions (the World Bank notably) committed themselves to financially support the construction of the BTC pipeline. In the end, they provided 70% of the total cost of the pipeline (3.9 billion dollars officially).

<sup>18</sup> AIOC was concerned that Turkey may make the circulation of oil tankers through the Turkish Straits difficult to force the consortium supporting the BTC project.

pipeline. The Azerbaijani oil transportation was then made of four countries: Azerbaijan, Georgia, Russia and Turkey. In addition to the three pipelines (the BTC, the NREP and the WREP), the Baku-Batumi railroad became another option to transport ACG oil. Indeed, despite Washington's argument, Devon and Exxon refused to join the BTC partners, considering that it was only a political pipeline with little commercial interest (LeVine 2007). Thus, they decided to transport their volumes of oil through the Baku-Batumi railroad, adding a fourth infrastructure to the Azerbaijani oil transportation network.

Lastly, in accordance with the Actor-Network Theory, the researcher should not miss the role played by non-humans. They are actors and, as such, they have impacts on the way the humans behave within the network (Latour 2005). For instance, the very composition of AIOC contributed to put Iran out of the network. Right after the signature of the PSA, H. Aliyev asked SOCAR to sell part of its share in ACG to NIOC. However, in order to join the AIOC, a company needs to have enough financial capacity, to have know-how and to be accepted by all the members of the consortium. U.S.-based companies then owned 38,8% of the shares in ACG and it was politically impossible for them to work with an Iranian company<sup>19</sup>. For the same reason, the Iranian route was quickly ruled out for exporting ACG oil even if this option was financially the most interesting<sup>20</sup>. The implementation of the BTC pipeline also led Lukoil to leave AIOC. Even if Russia was focused on the transportation of Kazakhstani oil (LeVine 2007), it rejected the construction of a main export pipeline in the South Caucasus, considering that it would undermine the Russian transportation options. Once the construction of the BTC pipeline has been agreed, it was politically impossible for Lukoil to take part in this project, regularly condemned by the Russian government. In late November 2002, the Russian company sold its shares in the ACG oilfields, claiming that it needed to focus on its assets in Kazakhstan<sup>21</sup> (Blum 2003). In this perspective, the non-human entities also frame the network: the composition of AIOC co-determines the transportation routes<sup>22</sup> and the choice of these routes co-determines as well the enrolment of new actors within the Azerbaijani oil transportation network (in the case of Lukoil, within AIOC).

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<sup>19</sup> Since the Islamic Revolution in Iran in 1979, the United States has very tense relations with Teheran.

<sup>20</sup> According to Terry Adams, in 1998, AIOC would have had to pay 4.9 dollars to transport a barrel of oil through a swap system with Iran against 6.5 dollars per barrel to transport the very same barrel from the Azerbaijani terminal of Dyubendi to the Georgian port of Batumi (Adams 2000).

<sup>21</sup> However, Lukoil kept its 10% share in the Shah Deniz gas field in Azerbaijan.

<sup>22</sup> On the notion of co-determination, see Thomas Risse, "Social Constructivism Meets Globalization", in *Globalization Theory: Approaches and Controversies*, ed. David Held and Anthony McGrew (Cambridge: Polity, 2007), 127-147.

Therefore, this network is made of four transportation routes: the Baku-Batumi railroad, the BTC pipeline, the NREP and the WREP. It crosses four countries (Azerbaijan, Georgia, Russia and Turkey) and runs from the Azerbaijani oil terminals of Dyubendi and Sangachal to the Georgian ones of Batumi, Kulevi and Poti and to the Turkish one of Ceyhan. However, such a network is not fixed and it may overflow over time (Callon 2005). For instance, the inauguration of a new oil terminal in Kulevi in May 2008, owned by SOCAR, contributes to the development of the network. The construction of a new oil pipeline between Samsun and Ceyhan or of an oil refinery in Ceyhan may also help further developing the Azerbaijani oil transportation network<sup>23</sup>.

### ***1.2. Translating the Azerbaijani oil transportation network: the role of BP and of the Azerbaijani presidency***

‘Framing is also connecting’ (Callon 2001, 65) actors within the Azerbaijani oil transportation network. The actors within such a network are of crucial importance. In this perspective, two important dimensions should be highlighted. First, there is no such thing as a distinction of levels within the network. In the globalization age<sup>24</sup>, this kind of distinctions seems to be more and more useless. Regarding corporate and social responsibility (CSR) actions, BTC Co – the company operated by BP that runs the BTC pipeline – develops programs that are at the same time locally and regionally based. For instance, BTC Co has implemented the Community Investment Program that is aimed at helping the local communities living along the pipeline – in a range of two kilometres – in Azerbaijan, Georgia and Turkey (Gulbrandsen and Moe 2005). The consortium also acts regionally through the Regional Development Initiative that tries to support the economic development of the whole region. Thus, all the actors within the Azerbaijani oil transportation network may act at the local level, the regional one or the international one. They could all be global actors, promoting their interests from the family sphere to the international organization<sup>25</sup>.

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<sup>23</sup> On these projects, see notably International Energy Agency, *Perspectives on Caspian Oil and Gas Development* (Paris, 2008), [http://www.iea.org/publications/free\\_new\\_Desc.asp?PUBS\\_ID=2076](http://www.iea.org/publications/free_new_Desc.asp?PUBS_ID=2076) (accessed 15 January 2010).

<sup>24</sup> For a definition of globalization, see David Held et al., “Rethinking Globalization”, in *The Global Transformations Reader*, ed. David Held and Anthony McGrew (Cambridge: Polity, 2002), 68.

<sup>25</sup> I am here referring to James Rosenau who has defined global governance as ‘systems of rules at all levels of human activity – from the family to the international organization – in which the pursuit of goals through the exercise of control has transnational repercussions’ (Rosenau 1995, 13).

However, all the actors within the Azerbaijani oil transportation network do not have the skills to be global. Some cannot be active all along the network and are rather focused on one part of this network. This sheds light into the second important dimension of the latter: what matters is not so much the nature of the actors rather than their skills (Latour 2005). What make a difference between companies' and governments' strategies within the Azerbaijani oil transportation network are their skills and how they are applying them to the network. The different strategies that emerge here are of course based on their nature but also on their means, their ability to mobilize other actors within this network and to exert power<sup>26</sup> over these actors. These strategies come from several linkages built on clanic, family or commercial relationships. Thus, the Azerbaijani oil transportation network is not only made of ties between companies and governments, it is also based on the nature of the ties within and between the actors that are part of this network. This particular characteristic helps understanding the structure of the Azerbaijani oil transportation network: it is at the same time dominated by an administration of a state and by a single company. Indeed, the Azerbaijani presidency and BP play a key role in this network. In the Actor-Network Theory's terms, both are centres of translation or 'actant' (Latour), i.e. an actor that helps framing the network and enrolling other actors within this network (Hernes 2009). A centre of translation 'can have access to other places and act on them' (Callon 2001, 65) and connects most of the actors within the network. Due to their capacity to frame the Azerbaijani oil transportation network and enrol new actors within it, BP and the Azerbaijani presidency can be considered as centres of translation.

For instance, the decision to build the BTC pipeline is largely BP's. Until the merger with Amoco, the London-based company was firmly against building a new pipeline while ACG production has not reached one million barrels a day yet. But, after the merger, BP became the first oil producer in the United States. It became then difficult for it to keep this position while Washington was heavily backing the BTC pipeline<sup>27</sup>. Finally, BP CEO John Browne decided unilaterally to back as well this project and informed himself AIOC, which caused huge protests among the other companies, especially Exxon<sup>28</sup>. After 2000, as the operator of

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<sup>26</sup> The power I am here referring to can be compared to structural power defined by Susan Strange as 'the power to shape frameworks within which states related to each other, relate to people, or relate to corporate enterprises' (Strange 1994, 24-25). However, I assume that this power is not the state's privilege and can be endorsed by other global actors such as a transnational company.

<sup>27</sup> Since 1995, the United States was supporting the construction of a Baku-Ceyhan oil pipeline that may enable to transport Caspian oil bypassing Russia.

<sup>28</sup> However, it is important to note that this decision was not only based on political reasons. Reserves in ACG were enough bankable to implement the BTC pipeline.

AIOC, BP was in charge of implementing the BTC pipeline. Under the umbrella of BTC Co<sup>29</sup>, it supervised the construction of the transportation infrastructure in Azerbaijan, Georgia and Turkey and, then, became the operator once it has been finalized in 2006<sup>30</sup>. This important role in framing the Azerbaijani oil transportation network gives BP a key position within it. Because it is the main producer of Azerbaijani oil<sup>31</sup> and the operator of the BTC pipeline, the London-based firm has connections with all the foreign companies in Azerbaijan and also with all the key Azerbaijani decision-makers dealing with energy. No decision regarding ACG, AIOC or the BTC pipeline can be taken without the agreement of BP, providing it the role of actant within the Azerbaijani oil transportation network.

The Azerbaijani presidency, which is the structure around the president that deals with both Azerbaijani internal and external affairs, has an equal capacity to frame the Azerbaijani oil transportation network. In February 1995, H. Aliyev organized a confidential meeting in Baku reuniting the president of AIOC Terry Adams, the president of SOCAR Natig Aliyev<sup>32</sup>, the vice-president of SOCAR and Azerbaijani president's son Ilham Aliyev and the head of SOCAR's foreign investment department Valekh Aleskerov. When Terry Adams told him that early oil could be produced in a very short notice on Chirag 1, the Azerbaijani president told him that two routes – one going through Georgia and another going through Russia – were needed to transport this oil (Adams 2009). The president of AIOC knew that the final decision would be taken within the joint management committee of AIOC where only BP-Amoco and SOCAR had voting rights. Thus, it was impossible to choose an export routes that the Azerbaijani presidency did not back. Notwithstanding its role in framing it, the Azerbaijani presidency also has the capacity to enrol new actors within the Azerbaijani oil transportation network. In 1996, the Azerbaijani presidency gave Azersun Holding the monopoly of Turkmen oil transportation in Azerbaijan. It is a business group, i.e. 'a collection of firms bound together in some formal and/or informal ways' (Granovetter 1995, 95), which has four companies involved in oil transportation business: AzTransRail, KavkazTransServis, Middle East Petroleum Farm (MEPF) and PetroTrans. Its enrolment paved the way for further involvement within the Azerbaijani oil transportation business. In 1997, it rented Dyubendi oil terminal for 25 years and earned the right to use the SOCAR-

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<sup>29</sup> BTC Co is a no-profit no-loss company that manages the BTC pipeline. As the operator (it owns 30.1% of this company), BP hires all the employees of BTC Co.

<sup>30</sup> BTC Co built the pipeline in Azerbaijan and in Georgia and now manages it there. In Turkey, the national company BOTAS has built the BTC pipeline, which is now operated by its subsidiary BIL.

<sup>31</sup> Nowadays, BP owns 34.14% of ACG oilfields.

<sup>32</sup> Natig Aliyev has no family links with the ruling power.

owned Dyubendi-Ali Bayramli oil pipeline. Almost ten years later, Azersun Holding's companies got involved in the Azerbaijani oil transportation network: AzTransRail and KavkazTransServis acquired the right to transport ExxonMobil's oil from ACG<sup>33</sup>. Thus, the Azerbaijani presidency helped Azersun Holding acquiring capabilities in the oil transportation business and, then, allowed it to get enrolled in the Azerbaijani oil transportation network.

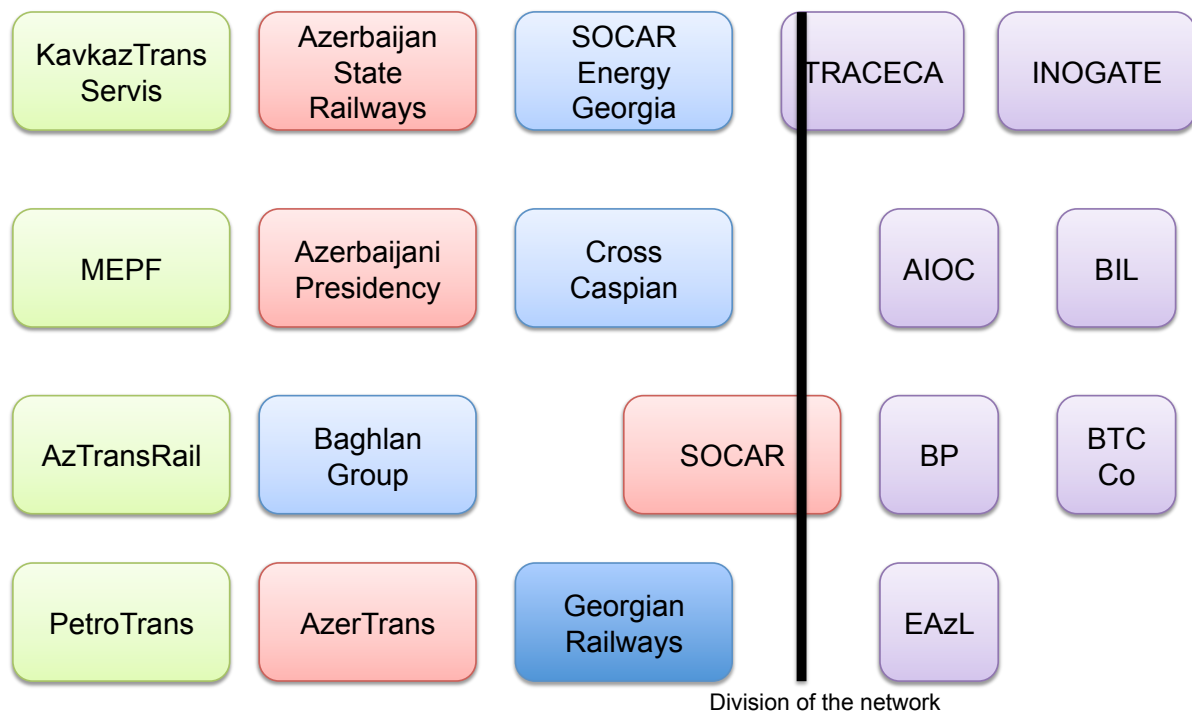


Figure 2. The division of the Azerbaijani oil transportation network<sup>34</sup>

The bi-centred nature of this network has impacts on its very structure. Indeed, because of these two actants, the Azerbaijani oil transportation network can be divided into two parts. On the right hand, there is the sub-network translated by BP and reuniting the companies and programs with Western or transnational ownerships (AIOC, BTC Co, BIL,...). They are all involved in the transportation of Azerbaijani to world energy markets, mainly through the BTC pipeline and the WREP (except ExxonMobil). On the left hand, there is the sub-network

<sup>33</sup> Because it refused to join BTC Co, ExxonMobil has had to find other ways to ship its oil from ACG. While it used the NREP and the WREP until 2005, it then signed an agreement with AzerTrans to transport its oil through the Baku-Batumi railroad. AzerTrans then signed a subcontract with CrossCaspian (both AzTransRail and KavkazTransServis have important shares in this company) but ExxonMobil did not recognize it.

<sup>34</sup> The EU-backed program TRACECA and SOCAR are the only actors to be active on both sides of the network. TRACECA helps Azerbaijan adopting EU norms on transportation but, at the same time, it delivers oil rail tankers to Azerbaijan State Railways. SOCAR, as the state oil company and a member of the Steering Committee for ACG oilfields, also stands on both sides of the network.

translated by the Azerbaijani presidency and made of the companies involved in the shipping of Azerbaijani oil across the South Caucasus, mostly through the Baku-Batumi railroad (see figure above).

This line does not only reflect a division of labour within the network, it also sheds light into the various meanings that are ‘inscribed’ in this network. Inscriptions ‘articulate’ a network: they spread meanings given by the actant(s) to some parts of this network (Callon 2001, 63). In the case of the Azerbaijani oil transportation one, two inscriptions given by the Azerbaijani presidency should be underlined. The right part of the network is devoted to promote the objectives of the Azerbaijani foreign policy whereas the left one is characterized by a crony capitalist and clanic structure where money is raised to the benefits of the Azerbaijani presidency’s normative networks. Indeed, pipelines, especially the BTC, have been defined as means to get closer to the West (mostly the EU and the United States). The final aim was to receive financial aids from international financial institutions, to earn legitimacy within the international community and also to get at least neutrality, at most support, in the war against Armenia on Nagorno-Karabakh. Within this sub-network, no bribing or attempt of corruption, at least between SOCAR officials and the foreign companies’ ones<sup>35</sup>, was allowed. It was under close scrutiny from international financial institutions and Azerbaijan could not have afforded to ruin its reputation if any illegal trade was noticed. This may explain why H. Aliyev fired M. Manafov after he asked foreign companies a bribe between 50 and 360 million dollars (according to the sources) for his team and him.

On the contrary, crony capitalism dominates the left part of the Azerbaijani oil transportation network. As it involves a few transnational companies (except ExxonMobil), corruption is easily implemented and poorly watched<sup>36</sup>. In the second part of the 1990s, a top manager of SOCAR, a top manager of the Georgian oil company GIOC and a top manager of Azersun Holding implemented an illegal trading business. While 100 000 oil barrels were refined in Baku refineries (likely to be owned by a important member of the Azerbaijani presidency), only 60 000 would have been declared. The 40 000 barrels left would have been shipped and sold illegally in Armenia and Georgia. Moreover, the structure of this oil rail transportation sub-network is blurred. It is difficult to find information regarding the companies that are part of it and it is even more difficult to gather data on the relations between these companies

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<sup>35</sup> However, some cases of corruption have been reported during the construction of the BTC pipeline between the contractors and the local state representatives in Azerbaijan.

<sup>36</sup> In Europe or in the United States, transnational companies are submitted to important control regarding their involvement into business linked to corruption. NGOs are also carefully watching the business practices of these companies, especially in the oil business.

(Guliyev and Akhrarkhodjaeva 2009). In 2006, ExxonMobil was negotiating the assignment of its agreement regarding the shipping of its ACG oil with AzerTrans to the newly established joint venture CrossCaspian. But the deal collapsed because the ownership of one shareholder (AzTransRail) changed in only two months, from Azersun Holding to the Turkish-based company Ikra<sup>37</sup>. The U.S.-based company asked for more details about this but CrossCaspian rather chose to cancel the deal. These two examples demonstrate how blurred and corrupted seem to be the part of the Azerbaijani oil transportation network dealing with rail shipping.

Therefore, the Azerbaijani oil transportation network carries different inscriptions. These different meanings reflect the bi-centred nature of this network that has been progressively framed. However, as networks are not stable and may change over time, so do the inscriptions they are carrying. In this perspective, it is interesting to look at the oil rail transportation part within the Azerbaijani oil transportation network to witness the evolution of the crony capitalist inscription.

## **2. Competing within the Azerbaijani oil transportation network: the Azerbaijani presidency vs. Azersun Holding**

While the sub-network devolved to ACG oil transportation through pipelines seems to be pretty stable<sup>38</sup>, the other one dealing with oil rail transportation is witnessing an increasing competition between Azersun Holding's companies and the firms owned or controlled by the Azerbaijani presidency. This sheds light into two important dynamics. First, it emphasizes a change from a clanic system to a crony capitalist structure within the network. Then, it highlights the increasing activism of the Azerbaijani presidency within this network since the arrival to power of Ilham Aliyev.

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<sup>37</sup> The deal was particularly quick because the owner of Ikra is the son-in-law of the president of Azersun Holding.

<sup>38</sup> Nowadays, the only evolutions within this part of the Azerbaijani oil transportation network concern the sales of foreign companies' shares in ACG oilfields.



## ***2.1. Clan politics in Azerbaijan: a reality within the oil transportation network?***

The role of clans in Azerbaijan has been a constant source of debates in the academic literature for the last 20 years. For some, the clan in Azerbaijan is a fantasy constructed by researchers to understand networks based on shared interests and sometimes kinships (Alieva and Torjesen 2007; Andvig 1999). For others, taking into account the clan is essential to understand the Azerbaijani society and the dynamics of Azerbaijani politics (Avioutskaa 2007). In this debate, several points have to be recalled. First, clan is a very recent political phenomenon in Azerbaijan with an old geographical mapping. The geographical boundaries of the clans usually coincide with these of the khanates on the territories of contemporary Armenia and Azerbaijan in the medieval times (Sidikov 2004). However, clan as a structured political phenomenon mainly rose in the 1970s, when H. Aliyev was the First Secretary of the Communist Party of Azerbaijan. He was originally from the Azerbaijani region of Nakhchivan and he offered some positions within the administration to people from the same part of Azerbaijan than him. Thus, he reinforced clan politics and built informal normative networks based on common geographical background and on shared interests. For instance, in the 1970s, someone willing to have a position within the Azerbaijani administration had to go for at least six months to Nakhchivan to learn the dynamics of the clan. When he/she came back, he/she was then appointed in the administration and was expected to transfer some money to the clan (Andvig 1999; Vaksberg 1991). This system was supposed to guarantee the loyalty of these newly appointed civil servants to the then First Secretary.

This leads to the second point, related to the importance of kinship links within the clan. Some scholars have assumed that some clans may be non-kinship-based (Ilkhamov 2007) or even that there is no such thing as clans but rather ‘regional groupings’<sup>39</sup>, at least in Azerbaijan (Sidikov 2004). First, it is important to notice that kinship links within the clan can be perceived or imagined (Collins 2007). This was the case of Azerbaijan in the 1970s. Once someone has lived in Nakhchivan for a while, he/she was then considered as a member of the clan with a common kinship, even if he/she was originally from another part of Azerbaijan (Vaksberg 1991). Then, if kinship ties may be weak at the bottom of the clan, are essential at the top level. For instance, the origin of the Nakhchivan clan lies in the Aliyev

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<sup>39</sup> A regional grouping is a ‘strategy to gain access to and to exploit resources, emerges and exists mainly in the domain of the state, while the state – as a command state – is characterized by a high level of clientelism’ (Sidikov 2004, 73). According to Sidikov, it is a new social and political phenomenon that has developed after the disintegration of the USSR.

wider family (Avioutskaa 2007). Finally, the clan in Azerbaijan is not a regional grouping, where there is no reverse flow from the centre to the region of the clan (Sidikov 2004). On the contrary, it seems that members of the clans occupying positions in companies or public administrations are expected to transfer part of their revenues (85% according to some sources) to the clan (Andvig 1999). Even if it is hard to prove, Nakhchivan seems to have greatly benefited from H. Aliyev's rule. At the political level, it has been granted huge autonomy (it has its own Constitution, parliament and government). It is also very likely to have received financial support from all the elites from Nakhchivan who are based in Baku.

Six clans are usually mentioned in Azerbaijan. However, three (the ones of Baku, Karabakh and Ganja) are more regional groupings (Sidikov 2004). The two most important clans are the one of Nakhchivan and the one of the Yeraz. The former is well known because of its links to the ruling power. Indeed, both Heydar and Ilham Aliyev are its most famous members. The Prime Minister Arthur Rasizade as well is part of this clan. It is also important regarding its number, around 361 500 people living in Nakhchivan. But, in terms of population, the Yeraz is the largest clan in Azerbaijan. 'Yeraz' is a nickname for 'Yerevan Azerbaijanis'. The members of this clan are originally from Armenia and their families have immigrated to Azerbaijan in the 19<sup>th</sup> and 20<sup>th</sup> centuries<sup>40</sup>. The Yeraz represent between two and three million people, that is around 30% of the Azerbaijani population (Avioutskaa 2007). The key figures of this clan are the Aliyev brothers<sup>41</sup>, notably Farhad and Rafiq, and Rasul Guliyev. The latter is now in exile in the United States<sup>42</sup>. If he does not hold anymore day-to-day responsibility within the Yeraz clan, he is still considered as one of its leaders.

The last clan – the one of the Kurds – is a bit special. It is a rather new one because the Kurds have been kept away from Azerbaijani politics during both Russian and Soviet rules<sup>43</sup>. After the collapse of the USSR, they became increasingly important and, nowadays, they would occupy 80% of the high positions within the Azerbaijani public administration (Sidikov 2004). This number is very high compared to the total number of Kurds living in Azerbaijan: 50-60 000 people, that is less than 1% of the total population of the country. Because of its

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<sup>40</sup> It is important to note that the last important migration wave from Armenia to Azerbaijan is from the beginning of the Nagorno-Karabakh war in 1988-1990.

<sup>41</sup> They have no family links with the ruling power. They are also known as the Alar brotherhood (they are all from the village of Alar in the district of Jalilabad in Azerbaijan).

<sup>42</sup> Rasul Guliyev was forced to exile in 1996 for very trouble reasons. According to some sources, he used the money he made heading the Baku Oil Refinery to build a small army aiming to seize power. He is the head of the Democratic Party of Azerbaijan and has several times expressed his desire to come back to Azerbaijan but has not been allowed to by the Azerbaijani presidency.

<sup>43</sup> Russia and the USSR feared that the inclusion of Kurds within the public administration would lead to the development of a Turkic identity in Azerbaijan (Sidikov 2004).

recent development and of its weak regional identity (its members are originally from various regions of Armenia and Azerbaijan), the Kurds have sometimes been depicted as a ‘subclan’ (International Crisis Group 2004, 21). But this grouping is based on strong kinship relations and is structured vertically. The leader of the clan is Beylar Eyyubov, who used to be the bodyguard of Heydar Aliyev and is now the head of security of Ilham Aliyev. The clanic nature of the Kurdish grouping is also the result of the construction of the Yeraz. They often consider the Kurds as a rival clan (both are in competition to held power jointly with the Nakhchivanis) and denounce a ‘kurdification’<sup>44</sup> of Azerbaijan.

The clanic organization of the Azerbaijani society has repercussions on the Azerbaijani oil transportation network. Within this network, a clanic system used to coexist with a crony capitalist one. The former was particularly strong under H. Aliyev’s time. SOCAR and AzPetrol then controlled most of the oil transportation business. SOCAR was of course closely related to the Nakhchivan clan, as the vice-president of SOCAR was the son of the then president H. Aliyev. AzPetrol Holding is another business group. It belonged to Rafiq Aliyev, from the Yeraz clan and notably owned AzerTrans<sup>45</sup>. Rasul Guliyev was also heading refineries in Baku and handling the refining and transportation of Turkmen oil volumes. This shared clanic control of the network was similar then to the organization of Azerbaijani politics. When he came to power for the second time in 1993, H. Aliyev had to be backed by both the Yeraz and the Nakhchivanis in order to decrease political instability. If the former president was born in Nakhchivan, his parents were originally from the Sisian district in Armenia (Sidikov 2004). This double clanic identity helped H. Aliyev getting the support of both the biggest clans in Azerbaijan. He also gave key responsibilities to some Yeraz as long as they did not threaten its authority<sup>46</sup>. Therefore, the Azerbaijani presidency shaped the part of the Azerbaijani oil transportation network it translated on the same way it managed Azerbaijani politics.

But some links within this network were also based on crony capitalism. For instance, the head of Azersun Holding was a Kurd born in Iran and was not considered to be part of any clan. But he was very close to H. Aliyev. When the latter had to come back to Nakhchivan in exile in the late 1980s, the head of Azersun Holding welcomed him. He then supported him financially. When H. Aliyev became president and then forced Rasul Guliyev to leave

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<sup>44</sup> Tofiq Ahmadli, “Kurdification of Azerbaijan: A Dangerous Plan”, *Yeni Musavat*, July 29, 2009.

<sup>45</sup> AzerTrans notably owns the Baku oil port (it will be soon replaced by the newly built Qaradagh oil terminal) and the Sangachal oil terminal (different from the BP-owned Sangachal oil terminal). It also has a shipping agreement with ExxonMobil since late 2004.

<sup>46</sup> For instance, Rasul Guliyev used to be the speaker of the Azerbaijani Parliament.

Azerbaijan, he got Azersun Holding involved in the oil business to ‘thank’ its manager for his support. This helped implementing a crony capitalist structure within the Azerbaijani oil transportation network. Therefore, in the late 1990s, the part of this network translated by the Azerbaijani presidency was a mix between clan politics and crony capitalism. But the takeover of the Baku oil refinery, previously controlled by Rasul Guliyev, by Azersun Holding reflects the potential shift from a clanic system to a crony capitalist one.

## ***2.2. Shifting interests within the Azerbaijani oil transportation network: the increasing activism of the Azerbaijani presidency***

The evolution of interests is deeply rooted within any heuristic network. Indeed, if the latter may evolve, thus the actors within the network may not be endowed with a set of fixed interests and stable preferences (Callon 2005). In this perspective, a new framing of a network or the enrolment of new actors within it may reflect a change in the interests of the actors, especially of the actants. The disenrollment of the Yeraz from the Azerbaijani oil transportation network is an example of such a process. Until late 2005, Rafiq Aliyev owned AzPetrol Holding. In November 2004, ExxonMobil signed an agreement with AzerTrans, an affiliate of this business group, regarding the transportation of its ACG oil to the Georgian ports on the Black Sea. During 2005, the latter started to move the ownership of its assets abroad (mostly in the Netherlands). But, in October 2005, Rafiq Aliyev and his brother Farhad, who then was Minister for Economic Development, were arrested for conspiring to overthrow the 2003-elected president Ilham Aliyev. Then, in December 2005, the Economic Court of Azerbaijan decided to transfer the ownership of AzPetrol Holding to Ibrahim Mammadov. The latter used to own 0.05% of this business group but sold his share to the Dutch company Allied Meridian Oil and Gas in early 2005<sup>47</sup>. In a few months, the Yeraz clan has been put out of the Azerbaijani oil transportation to the benefit of the Kurdish one<sup>48</sup>. Indeed, Ibrahim Mammadov is still the owner of AzPetrol Holding but a high figure of the Kurdish clan and an important member of the presidential apparatus would now control this business group. Contrary to his father, I. Aliyev has very few links with the Yeraz and seems to be less interested by a clanic system to rule the country or the Azerbaijani oil

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<sup>47</sup> For more details about the change of ownership of AzPetrol Holding, see notably Rovshan Ismayilov, “Observers: AzPetrol Shake-Up Could Affect Investments in Azerbaijan”, *Eurasianet*, January 10, 2006, <http://www.eurasianet.org/departments/business/articles/eav011006.shtml> (accessed 20 January 2010).

<sup>48</sup> In the meantime, 24 employees of AzerTrans who are from Alar, the very same village the Aliyev brothers are born, have been fired after the change of ownership of the company.

transportation network. That is why the Azerbaijani presidency may have decided to enrol some new actors and to disenroll others.

The structure of the Azerbaijani oil transportation network has considerably evolved after the presidential election of I. Aliyev. Because of his former position as vice-president of SOCAR, I. Aliyev is more aware of energy issues than his father. This new deal led to a shift in the interests of the Azerbaijani presidency: it decided to be more involved in and to change the mapping of the Azerbaijani oil transportation network. After 2005, Azersun Holding's influence progressively decreased to the benefit of SOCAR. Even if the latter was a bit involved in this oil rail transportation sub-network before, its further enrolment demonstrates the will of the Azerbaijani presidency to exert a closer control on this part of the Azerbaijani oil transportation network. The loss of influence of Azersun Holding is also due to the poor relationship between Rovnag Abdullayev, appointed president of SOCAR in late 2005 and very close to I. Aliyev, and the president of this business group, who is part of the 'old guard' (the former allies of H. Aliyev). The enrolment of SOCAR within the oil rail transportation sub-network has been progressive. It has essentially been through CrossCaspian, a joint venture established by MEPF and SOCAR in 2006. CrossCaspian's main aim is to transport oil products from the South Caspian to the Black Sea and it would now control 90% of this business<sup>49</sup>. Three companies have shares in CrossCaspian: AzTransRail (33%), KavkazTransServis (33%) and SOCAR (34%). This ownership's structure sheds light into the political-economic compromise concluded between Azersun Holding and the Azerbaijani presidency. On the one hand, the former has a majority stake in this joint venture (it owns both AzTransRail and KavkazTransServis). Moreover, the son of the president of Azersun Holding and general director of KavkazTransServis unofficially supervises CrossCaspian. On the other hand, the top manager of CrossCaspian is directly related to the Azerbaijani presidency: she is a relative, on her mother line, of a head of department in the presidential administration. Thus, the joint venture is politically and economically shared between Azersun Holding and the Azerbaijani presidency. It reflects the political-economic compromise the latter then needed to conclude in order to further enrol SOCAR within the Azerbaijani oil transportation network.

Nowadays, in accordance with its wish to exert a complete control over the Azerbaijani oil transportation network, the Azerbaijani presidency seems to be willing to disenroll Azersun

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<sup>49</sup> This data is from CrossCaspian. However, this joint venture does not manage to negotiate a third access to the BTC pipeline. BTC Co rejects it, unless CrossCaspian becomes more transparent.

Holding. This will have largely undermined the influence of the latter within this network. In 2009, an oil shipment owned by ExxonMobil was stopped at the border with Georgia by the Azerbaijani customs. On behalf of the subcontract it has with AzerTrans<sup>50</sup>, CrossCaspian was transported this oil. In order to quickly solve this problem (CrossCaspian was losing millions of dollars a day), a meeting took place between a senior member of the Customs Committee, a manager of ExxonMobil in Azerbaijan (EAzL), the president of Azersun Holding and the unofficial supervisor of CrossCaspian. However, Azersun Holding was unable to solve the issue, despite its history within the Azerbaijani oil transportation network. The problem had to be raised to AzerTrans, and thus to the Azerbaijani presidency that has direct control over this company, to be finally solved. The chairman of the Azerbaijani Customs Committee, Kamalladin Heydarov, would have been the one who decided to stop ExxonMobil's oil shipment. Since a few months, he would be trying to get enrolled within the Azerbaijani oil transportation network, perhaps to benefit from its crony capitalist structure. He is considered as a member of the 'old guard' and, as such, has lost influence since the arrival to power of I. Aliyev. The fact that Azersun Holding was unable to find an agreement with him demonstrates its loss of influence, even on other members of the 'old guard', within the Azerbaijani oil transportation network. This shift could increase in the next few months. According to some sources, the Azerbaijani presidency would be considering the opportunity to transfer some Azersun Holding's assets to SOCAR. One affiliate of SOCAR, SOCAR Trading, would be negotiating to contract Turkmen oil volumes. AzerTrans would then manage this business to the detriment of Azersun Holding's affiliates that have been doing this since 1997. Moreover, AzerTrans would not use CrossCaspian as freight forwarder but AzTransPetrol. This company is an affiliate to the Baghlan Group, which is directly controlled by the Azerbaijani presidency. This process would be a new step in the disenrollment of Azersun Holding from the Azerbaijani oil transportation network and the transfer of its assets to companies under direct control from the Azerbaijani presidency.

The dismissal of the Yeraz and the progressive disenrollment of Azersun Holding from the Azerbaijani oil transportation network are examples of how interests of an actant can shift. The appointment of a new Azerbaijani presidency has led to a redefinition of its interests and to a reconsideration of its 'needs' within this network. Its increasing activism emphasizes its

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<sup>50</sup> After the negotiations regarding the transportation of ExxonMobil's oil failed between the U.S.-based company and CrossCaspian, AzerTrans chose anyway to subcontract the latter to ship this ACG oil.

recent will to directly handle the part of the network it translated, notably through SOCAR. The undermining of the intermediaries in the oil transportation business reflects this strategy. In a more general manner, this shift also sheds light into the weakening of clan politics under I. Aliyev. Contrary to his father, the Azerbaijani president did not have to play the ‘clanic card’ to conquer and held power. Under his rule, loyalty is more the result of crony capitalism than the outcome of some clanic affiliation. This shift in Azerbaijani politics paves the way for an increased role of SOCAR not only in energy policy but also in external affairs.

### **3. Blurring the frontier between the state and the emerging oil company: Azerbaijan as a multinational company or SOCAR as a state administration?**

The increasing activism of the Azerbaijani presidency within the part of the Azerbaijani oil transportation network it translates sheds light into the new expectations of this actant. Under H. Aliyev, the latter was considered as a place where money can be easily raised for the clans and the elites. Now, the Azerbaijani presidency has taken into account political – not only economic – benefits it could earn from the oil rail transportation sub-network. This shift has led to a further ‘economization’ (Kjaernet 2009) of Azerbaijani foreign policy and to the strong involvement of SOCAR in the whole Azerbaijani oil transportation network.

#### ***3.1. The overflowing of energy: when oil meets foreign policy***

In Azerbaijan, energy and politics have always been deeply intertwined. For the last 20 years, oil and gas resources have been the strongest, not to say unique, argument of this state on the global scene. In order to handle this dependency, the Azerbaijani presidents have built close links between their administration and the national oil company. In September 1992, when he established SOCAR, A. Elchibey straightforwardly appointed his personal counsellor as head of the company. Sabit Bagirov was also a close political ally of the then Azerbaijani president and both were members of the same political party: the Popular Front. Then, when he arrived to power, H. Aliyev removed SOCAR from the negotiations with the foreign companies in order to have more control on this issue. The new head of the Azerbaijani energy policy, Marat Manafov, was a former colleague of the new president when he was a KGB officer in the 1970s. But, because of its lack of loyalty (see above), the latter was removed and SOCAR was put back in the discussions. H. Aliyev established then around him

a very small decision-making structure regarding Azerbaijani energy policy. Including him, it was made of only four people: the president of SOCAR Natig Aliyev, the head of SOCAR's foreign investment department Valekh Aleskerov and the vice-president of SOCAR Ilham Aliyev. The Azerbaijani president took the decision in the last resort. Both Valekh Aleskerov and Natig Aliyev were advising him. But the former was the real specialist of oil and gas negotiations: he used to be a top engineer within AzNeft (an 'ancestor' of SOCAR from the Soviet times) and was negotiating the PSA on behalf of Sabit Bagirov as early as in 1993 (he was then his deputy<sup>51</sup>). The son of the then president was the third summit of the triangle and was making the link between SOCAR and the Azerbaijani presidency. If most of the foreign companies did not consider him serious (they pictured him as a 'playboy'<sup>52</sup>), he was nonetheless very influential with his father. Natig Aliyev was the 'fourth man'<sup>53</sup> who, according to some sources, bought his position<sup>54</sup> and would have been the first to be removed in case of any failure. This very small structure was in charge of advising H. Aliyev on energy issues. This system sheds light into the high priority that was given then to energy policy.

When he came to power, Ilham Aliyev kept this triangular decision-making structure but removed the people who were in charge under his father's rule. He rather appointed people who were directly loyal to him. In December 2005, Natig Aliyev became Minister of Industry and Energy, a rather symbolic position. He is now an 'emissary' of the Azerbaijani energy policy and has few knowledge of the hot issues<sup>55</sup>. Rovnag Abdullayev replaced him as the president of SOCAR. His appointment was the result of his loyalty to Ilham Aliyev: he is about the same age than him (the latter is born in 1961 while the former is born in 1965) and is the nephew of Beylar Eyyubov, the head of security of I. Aliyev. The third summit of the triangle is Elshad Nasirov. He is the vice-president of SOCAR in charge of gas (the very hot issue<sup>56</sup> at the moment) and his role with I. Aliyev is similar to the one V. Aleskerov held

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<sup>51</sup> He was also at that time a member of the Popular Front. After H. Aliyev's arrival to power, he joined the leading party YAP (New Azerbaijan).

<sup>52</sup> Most of the interviewees who were part of the oil and gas negotiations in the 1990s used this term.

<sup>53</sup> The expression is from a former president of AIOC.

<sup>54</sup> This practice was very common at that time for top position within the public administration in Azerbaijan (Andvig 1999).

<sup>55</sup> For instance, on the discussions on Azerbaijani gas exports, he is far much less informed than SOCAR's top management. During a meeting on gas transportation issues with EU officials, he was believed to only know the focal points President Aliyev presented to these very same officials four months before.

<sup>56</sup> Azerbaijan is very likely to become one of the key gas suppliers of Europe. It is in the middle of a huge economic and political competition between Russia and the EU to capture its gas exports (Lussac 2009).



when H. Aliyev was president<sup>57</sup>. E. Nasirov is a friend of I. Aliyev from the university: both studied together at Moscow State Institute of International Relations (MGIMO). Finally, the fourth man who is added to this ‘irregular triangle’ is Beylar Eyyubov: he is very involved within the Azerbaijani oil transportation network. As the son-in-law of the cousin of I. Aliyev, he is very loyal to the Azerbaijani president. And, as the former bodyguard of H. Aliyev, he has huge influence among the ‘old guard’. But, within this structure, the Azerbaijani president is still the one holding the final word. The ‘spoil system’ he implemented after consolidating his power in 2004-2005 reinforced this situation. The main reason behind some strategic appointments seems to be rather the loyalty of the appointees than their competencies. For instance, Rovnag Abdullayev used to be the head of the Azerneftyanag oil refinery in Baku. As such, he mostly had experience on oil extraction but was not so aware of midstream and downstream businesses of both oil and gas sectors. If he is not a ‘puppet’, his lack of competencies may help the Azerbaijani presidency exerting a close control on the strategy of SOCAR.

The central role I. Aliyev holds in the Azerbaijani energy policy is not only due to his background but also to his way to rule. I. Aliyev seems to manage Azerbaijan as a ‘multinational company’<sup>58</sup>. According to foreign diplomats based in Baku, the management of Azerbaijani politics is shared between I. Aliyev on the one hand and his wife and his chief of administration on the other hand. The former would handle on his own everything that is related to energy and foreign policy while Mehriban Aliyeva would manage economics and Ramiz Mehdiyev deal with all the other issues. This particular scheme increased the key role of I. Aliyev within Azerbaijani energy policy and helps fostering a more global phenomenon. Some scholars speak about it as a ‘re-politicization of energy’ (Helm 2007, 1); others rather evoke a ‘economization’ of foreign policy (Kjaernet 2009, 150). Both define the same phenomenon that is happening in Russia, Turkey, etc: energy is now used to serve political objectives. The 1980s were instrumental in this process: in the aftermath of the 1973 and 1979 oil shocks, it was then believed that energy could and should be kept in the economic sphere, only handled by private actors. Such belief has been proved wrong<sup>59</sup>: energy is not ‘just another commodity’ (Helm 2007, 1). Despite different terminologies, both approaches describe the same reality: energy overflows markets to expand within the political and social

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<sup>57</sup> V. Aleskerov is now deputy speaker of the Azerbaijani Parliament.

<sup>58</sup> The author is grateful to Daniel Heradstveit for suggesting him this expression.

<sup>59</sup> See for instance the place of energy in the discussions between the European Union and Russia (Van Der Meulen 2009).

spheres. Overflowing is a concept used in the Actor-Network Theory and is what economists refer to as externalities, whether positive or negative. It is a more general term because, in the minds of economists, externalities often have impacts only on and among markets. On the contrary, overflowing may shift quite easily from the economic sphere to the political one, from the market to the state. In the globalization age, it is the result of the increasing interpenetration of markets and social practices (Held et al. 2002). It is a natural outcome of a framing (often of a market) and can be generated whether by goods and their circulation or by economic agents (Callon 2008). Overflowing of energy emphasizes that this commodity is not just an object politicized or de-politicized by human actors according to their wishes and needs. It is a non-human actor that can interact with human ones and their interests and policies (Callon 2005). 'Overflowing can affect – either independently or simultaneously – goods, agencies, or systems of relations established between agencies and goods' (Callon 2008, 248). When energy overflows economy, it not only affects the latter but also politics and the relationship between economy and politics. This leads for instance to a further mixing of economic and political interests when a state is defining its foreign policy.

As early as in 1994, the Azerbaijani presidency inscribed its foreign policy's objectives in the Azerbaijani oil transportation network. At that time, this inscription was only related to the implementation of transnational pipelines. Such transportation infrastructures had to help Azerbaijan getting closer to the West, hence benefiting from further political support and financial aid. More than 15 years later, Azerbaijan is part of several EU initiatives, mostly the European Neighbourhood Policy and the Eastern Partnership. It receives for instance financial support within the Azerbaijani oil transportation network: the European-backed program TRACECA delivered in 2003 two block trains to the Azerbaijani State Railways to transport oil along the Baku-Batumi railroad. It also gets political backing from the United States. In 2003, during the violent repression of the street protests against the newly elected president I. Aliyev, the U.S. embassy remained pretty silent in order not to undermine the economic and political cooperation between Azerbaijan and the United States. Since 2005, the Azerbaijani presidency acknowledged the political potential of the whole Azerbaijani oil transportation network and not only of the transnational pipelines. If those are political tools made of steel that have fostered cooperation between Azerbaijan, Georgia and Turkey (Lussac 2009), the companies within the network have also the capacity to further develop this regional cooperation. The enrolment of a new company within the Azerbaijani oil transportation network sheds light into this new awareness from the Azerbaijani presidency.

SOCAR Energy Georgia is the SOCAR's subsidiary in Georgia. This joint venture established in 2006 notably manages the distribution of commercial gas all across Georgia. It is part of the Azerbaijani oil transportation network because one of its subsidiaries, SOCAR Georgia Security, is in charge of protecting SOCAR-owned assets in Georgia, especially the Kulevi oil terminal. SOCAR Energy Georgia is owned at 51% by SOCAR, at 32.7% by PetroTrans and at 16.3% by the former Georgian Minister of Economics under E. Shevardnadze's presidency Ivane Chkhartishvili. PetroTrans is attached to Azersun Holding because one of its founders and managers is the nephew of the president of this holding<sup>60</sup>. But, above all, David Bezhuashvili owns PetroTrans in Georgia. His brother, Gela Bezhuashvili, is the head of the Intelligence department and the former minister of Foreign Affairs. David Bezhuashvili is close to President Saakachvili and has supported his arrival to power in 2003. He notably would have transferred some amount of money made out of the sale of Georgia gas company, Sakgazi, to the Russian one, Itera, in 1999 to the now ruling party, National Movement (Jervalidze 2006), hence funding the Rose Revolution. Azerbaijan is increasingly active in Georgia: it owns oil assets (the Kulevi oil terminal), it manages the commercial gas business all across the country and it helps developing the transportation infrastructures within the country (Azerbaijan funds the construction of the Baku-Tbilisi-Kars railroad on the Georgian territory<sup>61</sup>). SOCAR Energy Georgia gives the Azerbaijani presidency the opportunity to build further links with Georgia.

The development of cooperation between Azerbaijan and Georgia was one of the main objectives of their both foreign policies in the 1990s. H. Aliyev and E. Shevardnadze took advantage of their common view on external affairs to promote the implementation of pipelines that would serve these interests. Both wanted to get their states closer to the West and these transportation infrastructures gave them that opportunity. However, this cooperation was more based on a common foreign policy's objective than on the will to build a true and strong bilateral relationship. After 2003, these states seemed to be destined to be more and more away from each other. While Georgia was on its path to democracy thanks to a very pro-Western government, Azerbaijan was consolidating an authoritarian regime that allowed few spaces for opposition and political contestation. But, paradoxically, since that time, both countries are more and more getting along with each other. Today, it is in their

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<sup>60</sup> This is another example of the political-economic compromise made between this business group and the Azerbaijani presidency.

<sup>61</sup> The BTK railroad will run from Baku to Kars through Tbilisi after 2011. In January 2007, thanks to its state oil fund (SOFAZ), Azerbaijan provided Georgia a 220 million dollars loan repayable in 25 years at an interest rate of only 1% (Lussac 2008).

interest to cooperate not because of their relation with Russia or the EU but because of their respective needs. Georgia is seeking for investments, even more in the aftermath of the August 2008 war. Azerbaijan wants to become a regional leader, both to increase its revenues and to undermine Armenian influence in the South Caucasus<sup>62</sup>. SOCAR Energy Georgia is a strong example of the convergence of these interests. But this joint venture does not only foster cooperation between Azerbaijan and Georgia, it also builds stronger links between the Azerbaijani presidency and the Georgian ruling power. This may pave the way for further cooperation in the future between both countries and both elites. The establishment of SOCAR Energy Georgia also highlights the blurring of economic and political arguments in the development of state-to-state cooperation. The Azerbaijani presidency uses all the tools available to it to promote its foreign policy, as if Azerbaijan was a multinational company owning assets and using them in its neighbourhood. The further enrolment of SOCAR within the Azerbaijani oil transportation network fits into this framework.

### ***3.2. SOCAR's strategy: diversifying and expanding thanks to the Azerbaijani oil transportation network***

The overflowing of energy does not only affect the Azerbaijani presidency and its foreign policy, it also has impacts on SOCAR's commercial strategy. In the 1990s, SOCAR was a rather passive actor within the oil and gas business in Azerbaijan. If it had a very good knowledge of where the oil and gas fields were (notably thanks to the head of the geology department, Khoshbakht Yusufzade), it was unable to exploit its own resources. It lacked both technological and financial capabilities to do so. For instance, in September 1994, it bought a 20% share in the ACG oilfields. But, after a few months, it had to sell half of this share (to Exxon, Inpex and TPAO) because it was not able to assume the financial requirements. But, as the national oil company, SOCAR was in charge of negotiating the PSAs with foreign oil companies. It managed to become a minor stakeholder in every PSA signed during those times (27 PSAs have been signed between 1994 and 2009). If it held a passive position in the oil and gas development in Azerbaijan, SOCAR was not nonetheless a passive actor.

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<sup>62</sup> This issue has even become more important after Armenia and Turkey signed two protocols on the establishment of diplomatic ties on 10 October 2009.

It benefited from this position within the Azerbaijani oil transportation network to enjoy an increase of its revenues and transfer of technology. These benefits are part of a learning process every actor enjoys within such a heuristic network. It can be defined as ‘a set of dynamic interactions with feedback across multiple scales and in multiple dimensions on multiple networks’ (Ferrary and Granovetter 2009, 333). Regarding SOCAR, it means that this company benefited from its interactions with other actors within all the South Caucasian hydrocarbons transportation complex system ‘to anticipate, learn and innovate in order to react to major internal and external changes’ (Ferrary and Granovetter 2009, 333). In the late 1990s, the Azerbaijani oil transportation network experienced two major external changes. First, Azerbaijan stopped dedicating all the oil revenues to cover the state budget deficits. It means that some oil revenues were available at last for SOCAR’s business expansion. Then, due to the successive discoveries of non-commercial reserves or, even worst, dry holes, foreign companies have found Azerbaijan less attractive. After 2000 and until now, only seven PSAs have been signed. This situation opened a window of opportunity for SOCAR’s development. The Azerbaijani oil company started to develop its national assets foreign companies were not interested in<sup>63</sup>. SOCAR chose to focus on the exploitation of these reserves, even if they contain small volumes of oil<sup>64</sup>. It now produces 180 000 barrels of oil a day from these fields<sup>65</sup>. Thanks to both changes, SOCAR increased its cash flow and got further involved in the production of Azerbaijani oil reserves. It then paved the way for further involvement within the Azerbaijani oil transportation network, notably within the part BP translates. In the early 2000s, even if BP agreed to build the BTC pipeline, it did not want to assume the cost of its construction. The national and international export agencies and the World Bank were providing 70% of the money but the other 30% were still missing. Thanks to its oil revenues, Azerbaijan funded this last part: SOFAZ assumed 75% of this 30% (around 750 million dollars) while SOCAR provided the last 25% (around 250 million dollars). It was made official that, thanks to ACG revenues, the latter for now has financial capabilities.

But the learning process within the Azerbaijani oil transportation network did not only benefit financially to SOCAR. It acquired technology to develop its onshore and its (few) offshore assets. Although it was supposed to be on its own to produce deep gas in Guneshli,

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<sup>63</sup> The only companies to look at Azerbaijani onshore reserves are emerging ones such as the Chinese CNPC or the Indian ONGC

<sup>64</sup> On the 56 oil and gas fields SOCAR exploits, 38 are located onshore and 18 are situated offshore.

<sup>65</sup> SOCAR also receives 75 000 barrels a day from its share in ACG. These data are from IHS Global Insight.

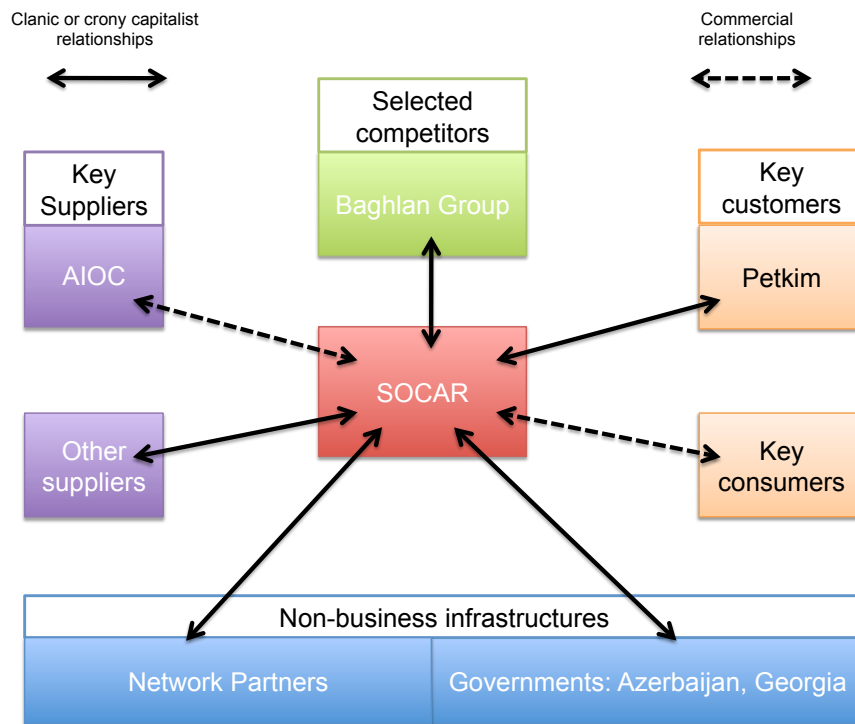
SOCAR received support from AIOC to improve its production and to stop the decline of this field's output. Then, in May 2008, SOCAR opened an oil terminal in Kulevi in Georgia. This infrastructure can be seen as a by-product of SOCAR's interactions with leading foreign companies within the Azerbaijani oil transportation network. Being part of BTC Co, SOCAR has witnessed BP's management of the ultra-modern Sangachal oil terminal. The implementation of this new oil facility also highlights the regional expansion of SOCAR. Such an expansion is instrumental for any firm willing to be multinational (Rugman and Verbeke 2008). But it does not only improve the company's position on the market, it also helps developing the reputation of this company. Being regional, SOCAR has more weight compared to when it was just a national firm with one national assets. This shift was particularly visible in the first half of 2008. The sudden rise of the world oil prices<sup>66</sup> logically had impacts on the calculation of the oil revenues in Azerbaijan. The amount of this profit oil is based on a complex equation of the real rate of return<sup>67</sup> of ACG oil and is determined according to three phases. If the contractor's rate is under 16.75%, 70% of the revenues go to AIOC and 30% go to SOCAR (phase 1). If this rate is between 16.75% and 22.75%, 45% go to AIOC and 55% go to SOCAR (phase 2). And if this rate is more than 22.75%, 20% go to AIOC and 80% go to SOCAR (phase 3). During Spring 2008, SOCAR and SOFAZ contacted BP and declared that it was now time to switch to phase 3 because of the rise of world oil prices. BP denied such a shift and started arguing with its Azerbaijani partners. The debate was even tenser due to the poor relationship between the then president of BP Azerbaijan, Bill Schrader, and the SOCAR's top management<sup>68</sup>. Finally, after long discussions, SOCAR and SOFAZ were proven right and the calculation of the profit oil switched to the third phase. This symbolic win of SOCAR has to put into the context of its regional expansion. Nowadays, the Azerbaijani oil company also has the intellectual, technological and financial capabilities to face – not to compete with yet – foreign firms active in the South Caucasus.

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<sup>66</sup> In June 2008, a barrel of oil was worthy around 140 dollars.

<sup>67</sup> This calculus especially takes into account the world oil prices.

<sup>68</sup> In August 2009, in a rather surprising move for the other foreign oil companies, Bill Schrader has been appointed manager of TNK-BP in Russia. Rashid Javanshir, the former president of BTC Co, replaced him on 1<sup>st</sup> September 2009. It is the first time that an Azerbaijani is appointed president of BP Azerbaijan.



*Figure 3. Potential Flagships Relationships within the Azerbaijani oil transportation network<sup>69</sup>*

Becoming regional, SOCAR is turning into a flagship firm within the Azerbaijani oil transportation network (see scheme above). Such a firm is ‘a multinational enterprise which has taken on the strategic leadership of a business network consisting of four other partners: key suppliers, key customers, selected competitors, and the non-business infrastructure’ (Rugman and D’Cruz 1997, 403). In this case, the business network deals with the transportation of Azerbaijani oil. SOCAR is involved upstream because it has shares in ACG and owns oil reserves. It is also active midstream, as it is a member of BTC Co and a shareholder in CrossCaspian. It is finally present downstream because it owns the Kulevi oil terminal and has bought the Turkish petrochemical company Petkim in 2008<sup>70</sup>. But to be a flagship firm and, then, take over the Azerbaijani oil transportation network, SOCAR has to ‘control’ every part of it. For the moment, it has commercial relationships with the key supplier, AIOC. But, as a member of the joint management committee, it has a close look on the strategy of this key supplier. Besides, all the other Azerbaijani oil comes from SOCAR-

<sup>69</sup> This figure is built from Rugman and D’Cruz 1997, 404.

<sup>70</sup> SOCAR acquired from the Turkish government a 51% stake in Petkim in 2008 (the other stakeholder is the Turkish company Turcas). Petkim owns more than 14 refineries in Turkey. It should enable SOCAR to refine or transform oil products and then to sell them on the Turkish and the European markets.

owned fields. Thus, the Azerbaijani oil company controls more or less this part of the network. On the consumers' side, SOCAR owns two of the largest assets in the downstream of the Azerbaijani oil transportation network: the Kulevi oil terminal and Petkim. Anyway, this part of the network is not so important in the strategy of SOCAR to turn into a flagship firm. Every company owning shares in ACG sells its oil to the highest bidder in Ceyhan. SOCAR cannot contest this system and has no interest in it, as long as some oil volumes go to Kulevi and Petkim.

The only limit regarding the takeover of the Azerbaijani oil transportation network deals with the midstream. For the moment, SOCAR's competitor is not really a selected one. If CrossCaspian is involved in it, so are Azersun Holding's companies (AzTransRail and KavkazTransServis). To change this situation, SOCAR has to remove these actors to the benefit of 'friendly companies'. The companies from Baghlan Group (AzTransPetrol) or AzerTrans, both controlled by the Azerbaijani presidency, would be such selected competitors. They would enjoy with SOCAR crony capitalist relationships as well. Thus, to switch from a key position within the Azerbaijani oil transportation network to definitely become a flagship firm, SOCAR needs to remove all its unselected competitors. Finally, due to its connections with Azerbaijan and the Georgian elites (thanks to SOCAR Energy Georgia), such crony capitalist relationships also exist between SOCAR and some governments dealing with the Azerbaijani oil transportation network. Consequently, the Azerbaijani oil company is on the verge of taking over the latter. The partly crony capitalist structure of this network is instrumental in this business strategy, helping SOCAR to diversify and expand regionally.

'Economies of connectedness' play a crucial role in this regional expansion and diversification. These are 'benefits accruing to the firm stemming from sharable relationships of its top management (Dieleman and Sachs 2008, 273). This concept may help understanding how the connections of SOCAR's top management with the Azerbaijani presidency and also with the Georgian ruling power contribute to the expansion and diversification of an emerging oil company such as SOCAR.



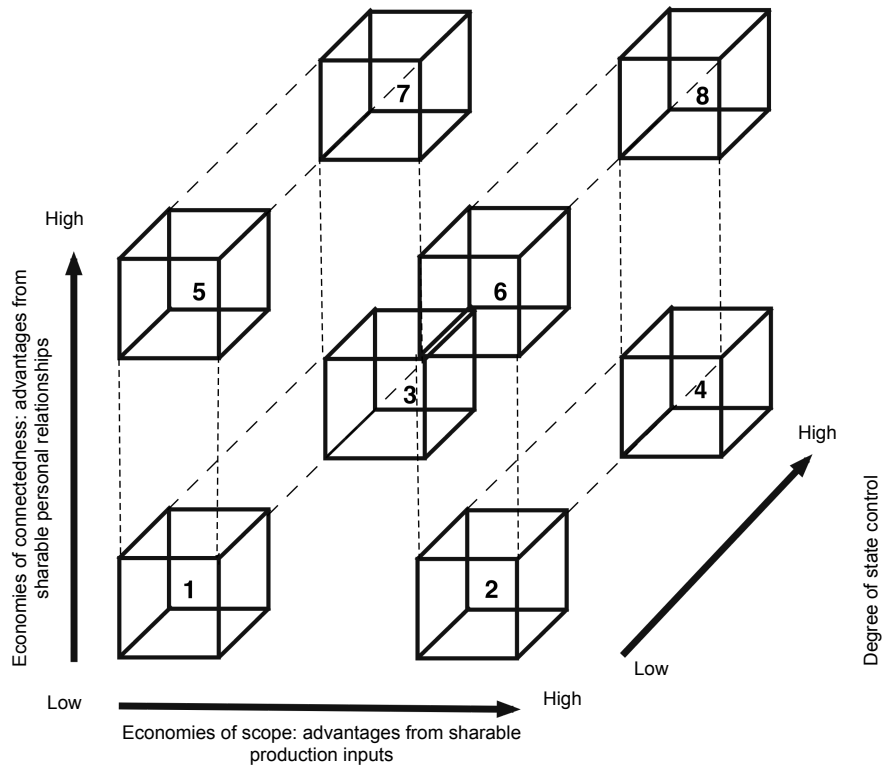


Figure 4. Taxonomy of diversifying companies<sup>71</sup>

According to Dieleman and Sachs, two main dynamics of diversification of a company should be taken into account. The first one is economies of scope: it is less costly to combine two or more products lines in one firm than to run them separately. The second one is economies of connectedness: the company diversifies to take advantage from sharable personal relations in a weak institutional environment. However, this model misses the role of the state in the diversification of state-owned companies. According to Dieleman and Sachs, if such a company with high economies of connectedness diversifies, it is just to provide more financial advantages to the ruling elites. Such an explanation is too restrictive: diversification may also serve political purposes such as fostering regional cooperation. According to this analysis, I here introduce the degree of state control as a third dynamic of diversification.

High degrees of economies of connectedness and of state control characterize SOCAR's diversification. The degree of economies of scope depends on the nature of the diversification of the Azerbaijani company. Its takeover of the Azerbaijani oil transportation network can be

<sup>71</sup> Legend: (1) Driverless diversification; (2) Resource-driven diversification; (3) State-driven diversification; (4) Ownership-driven diversification; (5) Relationship-driven diversification; (6) Business group-driven diversification; (7) Crony capitalism-driven diversification; (8) Global diversification. This figure is built from Dieleman and Sachs 2008, 274.

considered as a global diversification and fits into the eighth box of the above scheme. Controlling huge parts of this network would increase SOCAR's revenues and would decrease its dependencies on intermediaries. Besides, due to the poor relationship between SOCAR's and Azersun Holding's top managements, these intermediaries could not be reliable. In this context, diversification is instrumental to decrease economic risks. This diversification is also state-driven. The regional expansion of SOCAR perfectly fits with the will of Azerbaijan to foster cooperation with Georgia and Turkey. Lastly, SOCAR's diversification is the result of economies of connectedness insofar as its involvement within the oil transportation business is largely eased by the Azerbaijani presidency. Due to the crony capitalist structure of a part of the Azerbaijani oil transportation network, this dynamic is even crucial.

On the contrary, other diversification's strategies may fit into other boxes within the above scheme. The establishment of a subsidiary of SOCAR Trading in Singapore would rather correspond to crony capitalism-driven diversification (seventh box of the figure). Here, the two inner dynamics of SOCAR (economies of connectedness and state control) are still high. But the degree of economies of scope seems to be low. The main business objective of this affiliate is to market Azerbaijani crude oil in South-East Asia. Such a strategy is surprising while SOCAR is seeking at the same time to market this oil in Europe<sup>72</sup>. It is contradictory to what management approaches to flagship firms recommend: to reinforce its regional position (here, in Europe and in the South Caucasus) and to give time to go international (Rugman and Girod 2005). According to some sources, the main reason behind such a diversification would be to make money more 'invisible' and then to transfer it to Azerbaijani elites in Azerbaijan. The economies of scope behind such a diversification would be rather small, as corruption appears to be the main motivation. Therefore, the position of SOCAR, or of any firm, within the above scheme would vary according to the dynamics of the diversification it implements.

SOCAR's expansion and diversification may be at the same time relationship-driven (taking advantage of interactions with regional elites), resource-driven (accessing new markets and benefiting from its own resources) and politics-driven (pursuing political gains on the international scene). The coexistence of these different dynamics sheds light into the blurring of economic and political interests. SOCAR is not only promoting state interests as well as its business strategy is not purely commercial. Turning into a flagship firm, SOCAR is on the

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<sup>72</sup> SOCAR is in discussions to buy refining capacities in Romania and in Ukraine.

verge to become another actant within the Azerbaijani oil transportation network, of course in accordance with the Azerbaijani presidency's wish. This demonstrates how an emerging oil company may benefit from its state-ownership to acquire new positions within the global oil sector.

Witnessing the Azerbaijani oil transportation network, one may somehow think that Azerbaijan is run as a multinational company and that SOCAR's strategy is similar to one of a state administration. Azerbaijan's regional leadership may be similar to the one of a multinational company because Baku is using the most effective arguments of its foreign policy. SOCAR's diversification may be compared to the development of a state administration because the oil company is profiting from its economies of connectedness to expand within the oil transportation business. But this view is too restrictive: in the globalization age, economic and political interests are increasingly intertwined. The overflowing of energy further fosters such a dynamic. While Azerbaijan takes advantages of this situation to promote its political interests through its economic affiliates, SOCAR rather benefits from the specific skills of the former to reinforce its commercial position and develop regionally. Both are enjoying the skills and assets available to them. Both are using them to defend and promote their very own interests. In this context, focusing only on the nature of such actors is not enough: their interactions are instrumental to understand the processes that are occurring, whether within the Azerbaijani oil transportation or within any other heuristic network.

## Conclusion

For scholars interested in the relationship between economy and politics, the South Caucasus is definitely very confusing. If the ties between national oil companies and South Caucasian states are not surprising, the convergence of interests between transnational corporations and great powers is far much unexpected. Why do BP and the United States choose to promote the same pipeline project? Why do U.S.-based companies agree with Russia or even Iran? One might think that a particular weather over the South Caucasus is turning the leaderships of these actors upside down. But scholars may rather enhance that energy is not anymore (if it never was) a commodity among others. It is of particular concern for private actors as well as for public ones. States have huge interest in energy security and the very future of companies is at stake when they explore the seabed of the Caspian. In this complicated context, while overflows are everywhere, using the Actor-Network Theory is of great help to understand the associations and connections between the actors involved in energy politics in the South Caucasus. The networks it helps drawing are very useful to analyze what is behind the scene in the so-called 'New Great Game' (Kleveman 2003).

Constructing an Azerbaijani oil transportation network helps understanding three dimensions of the transportation of Azerbaijani oil in the South Caucasus. First, this network is made of two actants – BP and the Azerbaijani presidency – that inscribe different meanings in this network. Then, three kinds of linkages coexist at the same time and according to the actors they deal with: commercial ones, clanic ones, and crony capitalist ones. Finally, SOCAR and the Azerbaijani presidency take advantage of this network to promote their respective, most of the time common, interests. This last point is essential to understand the role of oil in the political economy of Azerbaijan.

The last two decades have highlighted the crucial role it plays in Azerbaijani foreign policy. Thanks to its hydrocarbon resources, Baku has attracted the attention of the leading foreign companies and of the great powers. Oil has enabled Azerbaijan to get closer to the EU and the United States. Energy has helped this country building closer and stronger links with its Western neighbours, Georgia and Turkey. Progressively, a political economy of Azerbaijan has emerged, where the national oil company holds a central role. SOCAR is not only the envoy of the Azerbaijani presidency in the oil and gas sector, it is its flagship to become a regional leader. Thanks to SOCAR, the ties between Azerbaijan and Georgia are stronger and stronger. Thanks to SOCAR, the linkages between Baku and Ankara that could have fallen apart after the Turkish-Armenian *rapprochement* in Autumn 2009 are still standing. In the

regional political development of Azerbaijan, SOCAR is the best tool of the Azerbaijani presidency.

Such a political mission could be to the detriment of the firm's strategy. Indeed, when making an investment abroad, what matters is the economy, not (so much) politics. Due to the very composition of the Azerbaijani presidency, the frontier between economy, especially energy, and politics is very blurred. I. Aliyev does not have forgotten his past as vice-president of SOCAR and somehow runs his country as a multinational company. This is beneficial to the Azerbaijani oil company. Thanks to the presidency's support, it firmly faces competition in Azerbaijan as well as abroad. The progressive takeover of the Azerbaijani oil transportation would not be so easy without the help from the very top of the Azerbaijani state. SOCAR is expanding regionally, more and more encompassing all the businesses within the oil sector, from upstream to downstream. This regional business expansion of this company perfectly fits with the regional political ambitions of Azerbaijan today.

But what will happen tomorrow? Will the top managers of SOCAR stay loyal to the Azerbaijani presidency? Once he consolidated his power at the top of the Azerbaijani state, I. Aliyev implemented a spoil system in the high administration, and especially in the sphere of energy. One of the main aims was to reduce the risk of diverging interests between the Azerbaijani presidency and SOCAR. If the 'old guard' remains active within the Azerbaijani oil transportation network, its power decreases day after day. Some have been disenrolled (the Aliyev brothers), others are on the verge to be so (Azersun Holding) and some cannot get enrolled (the Customs Committee). Nowadays, the control of the Azerbaijani presidency on the part of this network it translates seems to be almost complete. But, while the network is expanding, it is likely to decrease. In a friendly country, the Azerbaijani presidency can easily look closely at its flagship. But, in a EU country such as Romania, the same kind of control is less likely to happen. For instance, the Azerbaijani ruling elites would be less able to supervise (and to benefit from) corruption there. Besides, it is in SOCAR's interest to balance its portfolios and it will then go further and further away from Baku. Therefore, the control of the Azerbaijani presidency could decrease and some disagreements could occur over time.

Such a situation seems to be the 'curse' of the relationship between emerging oil companies and their parent states. When developing and diversifying, the former may lose their political interests for the states they are part of. Going international, they may lose the backing these

states provide and severely face international competition, especially in the energy sector<sup>73</sup>. The future of an emerging oil company seems to lie at the regional level. It can benefit from its parent state's support while diversifying in neighbouring countries. Such a regionally based company is of great interest for the state that owns it as well. Indeed, international diversification of a company is unlikely to benefit to the parent state. This economic strategy would hardly come together with the establishment of strong political linkages, except in some economic fields such as military sales. For instance, the opening of a SOCAR branch in Singapore is very unlikely to foster cooperation between Azerbaijan and this country, especially in other fields than energy. The relationship between emerging oil companies and state owners is mutually beneficial at the regional level. There, these companies may be the key enforcer of the foreign policy of their owners. There, the states may use these firms to promote economic cooperation in parallel to political one. The relationship between SOCAR and the Azerbaijani presidency sheds light into this crucial dimension: emerging oil companies and their state owners coexist peacefully and beneficially when they share the same will of regional expansion, whether political or economic. At least in the South Caucasus, regional cooperation lies in the hands of both the emerging oil companies and of the states.

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<sup>73</sup> See for instance the difficult establishment of the state-owned Indian company ONGC in Eurasia (Lussac 2009).

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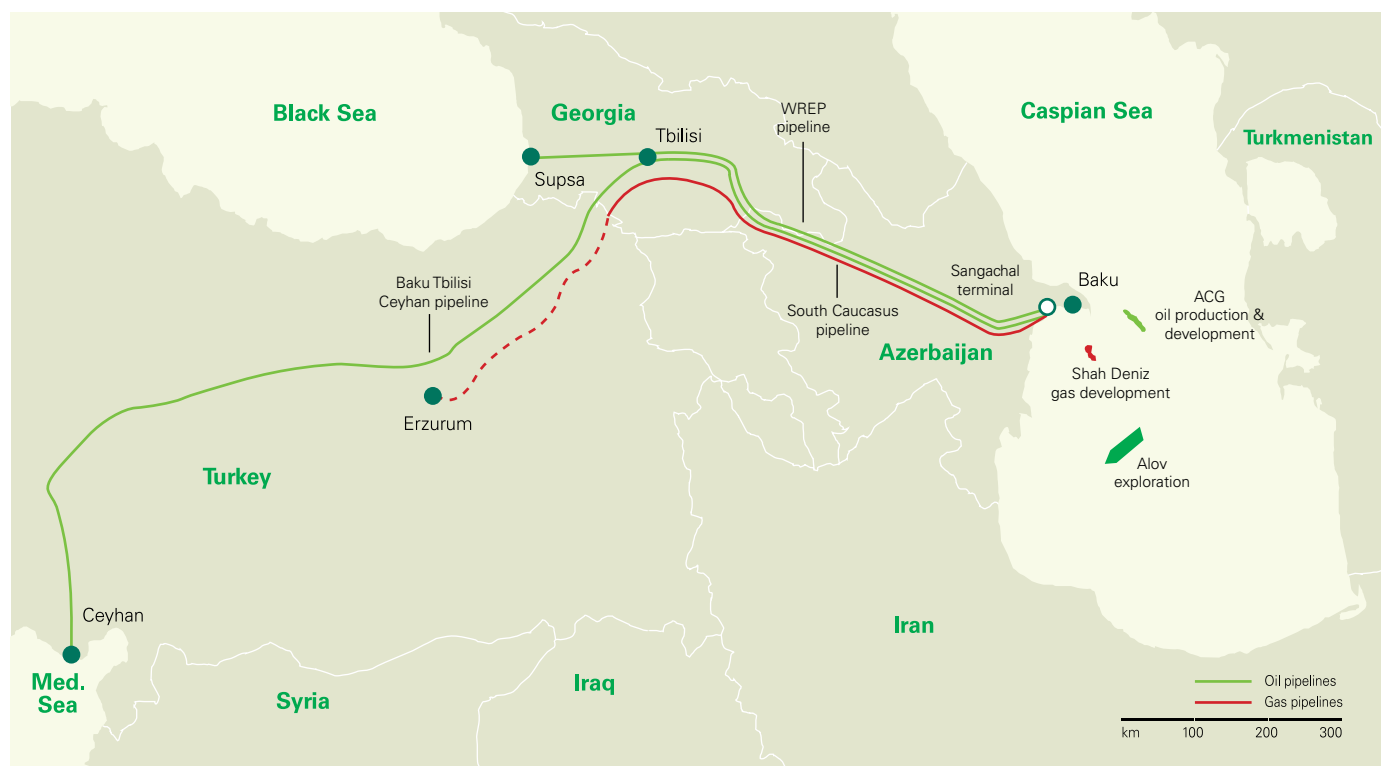
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## Appendixes

### *Appendix 1: The Oil and Gas Transportation Infrastructures in the South Caucasus*



Source: BP.

### *Appendix 2: The Azerbaijani Oil Transportation Network*

Companies	Nature	Personal ownership
AIOC	Oil Producing Consortium	Global
Azerbaijan State Railways	Railway Company	Azerbaijani presidency
AzerTrans (AzPetrol)	Freight Forwarder	Azerbaijani presidency
AzTransRail	Rail Transportation Company	Azersun Holding
Baghlan Group	Transportation Company	Azerbaijani presidency
BIL	Transportation Company	BOTAS (Turkey)

BP	Oil Company	Global
BTC Co	Pipeline Transportation Consortium	Global
PetroTrans	Oil Transportation Company	Azersun Holding
Cross Caspian	Transportation & Coordination Joint Venture	Azersun Holding / Azerbaijani presidency
ExxonMobil (EAzL)	Oil Company	Global
Georgian Railways	Railway Company	Georgia
INOGATE	Program	EU
KavkazTransServis	Rail Transportation Company	Azersun Holding
MEPF	Trading Company	Azersun Holding
TRACECA	Program	EU
SOCAR	Oil Company	Azerbaijani presidency
SOCAR Energy Georgia	Joint Venture	Azerbaijani presidency / Azersun Holding

### *Appendix 3: List of interviewees*

This paper is part of a PhD research started in 2007 at Sciences Po Bordeaux. For this PhD thesis, I have conducted around 100 interviews in eight countries so far. This work has of course largely inspired this working paper. However, for a sake of clarity, I chose to mention below only the interviewees that have been instrumental in the makings of the latter.

#### *Azerbaijan*

AIOC

BTC CO

CrossCaspian

ExxonMobil

McDermott Caspian Contractors

BP Azerbaijan

Chevron

European Council (Baku office)

FAR Centre

Ministry of Energy and Industry

Oil Workers' Rights Protection Organization Public Union SOCAR

SOFAZ

StatoilHydro

Total

TPAO

### *Georgia*

BP Georgia

GOGC

Millennium Challenge Georgia Fund

SOCAR Energy Georgia

### *Norway*

BP Norge

Statoil

### *Turkey*

BP Turkey

BIL

BOTAS

IFC (World Bank Group)

TPAO

TPIC

### *United Kingdom*

BP

## **Glossary**

ACG Azeri-Chirag-Guneshli (oilfields)

AIOC Azerbaijan International Operating Company

BIL Botas International Limited (operator of the Turkish part of the BTC pipeline)

BTC Baku-Tbilisi-Ceyhan (oil pipeline)

EAzL Exxon Azerbaijan Limited

GIOC Georgian International Oil Corporation

MEPF Middle East Petroleum Farm

NIOC National Iranian Oil Company

NREP Northern Route Export Pipeline (Baku-Novorossiysk)

PSA Production Sharing Agreement

SOCAR State Oil Company of Azerbaijani Republic

WREP Western Route Export Pipeline (Baku-Supsa)