



Economic Engagement: Building the U.S.-Azerbaijan Relationship

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Q&A following Remarks at American Center, University of Language

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ASSISTANT SECRETARY SULLIVAN: Thank you very much Mr. Semed Seyidov for your kind introduction.

Great to be back in Azerbaijan. Each time I visit Baku I feel the energy of a changing, growing and modernizing economy. I can actually see changes that have taken place since my last visit in February – new roads, bridges and buildings all around the city. Clearly Baku is taking its place as a key regional economic hub. The Azerbaijani economy is taking off, and the country's oil and gas revenues have the potential to transform the country and the lives of the people here.

The United States has deep and long-term interests in the Caspian region. We are committed particularly to helping ensure Azerbaijan's prosperity, independence, and sovereignty. And we fully support President Aliyev's commitment to making Azerbaijan a modern, secular, democratic, and market-oriented state. Azerbaijan's key role in global energy security, our important cooperation on regional security, and the country's strategic position as the natural gateway between Europe and Central Asia make it an essential partner for the United States.

Over the past year, due in large part to the intensive efforts of our Ambassador and your officials, we have intensified our engagement with Azerbaijan across three critical areas: 1) democracy and democratic reform; 2) security cooperation; and 3) energy cooperation and economic reform.

Now, my Bureau, as the Assistant Secretary of State for Economic, Energy, and Business Affairs, I focus on the third area – energy and economic cooperation, but we it's important to recognize that all three of these areas are absolutely very interconnected. We look for progress in all three because progress in each of these three areas reinforces progress in the others and we believe that these three areas moving forward will lead to lasting security, stability, and prosperity that all citizens desire and deserve.

Energy Cooperation

So let me first talk about the critical area of energy cooperation between our two countries. We have a well-established history of cooperation and trust in the field of energy. The Baku-Tbilisi-Ceyhan (BTC) pipeline – which as you know, is one of the most modern, state of the art pipelines in the world – is a symbol and testament to that critical cooperation. Azerbaijan's regional leadership was essential to bringing the BTC vision to reality.

We are building on this tradition of close cooperation in the energy field. This past March, my boss at the State Department Secretary of State Condoleezza Rice and Foreign Minister Mammadyarov signed a memorandum of understanding formally establishing the U.S.-Azerbaijan Energy Dialogue. I co-chair this Dialogue and we had very constructive meetings to further advance our common energy security goals in this area.

What are these goals? Well, as we announced today, during the signing of a U.S. Trade and Development Agency grant that will go to SOCAR. We believe we are now embarked on the next stage of Caspian Energy development, which would entail a number of things: 1) enhanced production of oil and gas in Azerbaijan's offshore sector; 2) continued natural gas exports to Georgia and Turkey, and initial exports to Greece and Italy; 3) further work on the Nabucco pipeline project, with Azerbaijan's and perhaps Central Asia's gas moving to markets in Central Europe, and 4) the emergence of Azerbaijan as an oil and gas transit country, as Azerbaijan continues its outreach to Turkmenistan and Kazakhstan.

Azerbaijan's continued leadership will be essential to achieve these goals, as we continue cooperation between the U.S. and Azerbaijan, as well as working to deepen the cooperation between Azerbaijan and our European allies and the European Commission. The commencement of the next phase of Caspian energy development, we believe has already begun. As I mentioned, today we signed a rather large feasibility study to construct an oil and gas pipeline connecting Central Asia to Azerbaijan. This is a big and important step and it is the beginning of many good things to come in terms of the next phase of Caspian energy development. We believe the opportunities in this sector are great and can lead to lasting opportunity for the people of the region. Now is the time to seize these opportunities.

U.S.-Azerbaijan EPC

The next thing I wanted to talk about was the Economic Partnership Commission that we launched in February. We are seeking to support economic stability and prosperity in Azerbaijan through our work on the U.S.-Azerbaijan EPC – as we call it – which I launched with Minister Sharifov in February of this year. Again, we met today and reviewed goals, reviewed progress, and took stock of what we've been doing. We've made a of the EPC are to strengthen and deepen economic and commercial engagement between our two countries and ensure Azerbaijan's continued, sustainable development, wise use of its energy resources and revenues, and successful transition toward a market economy. A healthy empowered private sector is key to broad and sustained economic growth. I am in Azerbaijan to take stock of the EPC progress we have made and to help set future goals under the EPC.

In terms of broader economic principles, we think its very important to recognize that while petroleum revenues are indeed a blessing, that this country has definitely been blessed with, wise management of these revenues is essential to long-term economic health and stability. Over-dependence on the petroleum sector will affect the long-term health of the economy. So, one of the important elements that we focused on in these meetings is looking at ways to cooperate to help Azerbaijan diversify its economy, not only focusing on the energy sector, but the non-energy sectors of the economy. We also focus on the issue of macroeconomic stability, particularly with regard to inflation, because this is another issue for countries taking in large revenues from oil that can have an impact with regard to inflation. This is another area where we are working together to keep the focus on that. Finally, the development of Azerbaijan's financial sector is also key to achieving sustainable growth and developing, particularly, in the non-oil sector in terms of its goal of economic diversification.

Corruption and Transparency

Let me talk very quickly about another issue that is among the utmost concerns of the EPC and that is corruption and transparency. We are working closely with the Government to help it redouble its efforts to promote transparency and fight corruption. By implementing trade agreements and integrating into the global economy, Azerbaijan's political institutions will mature and become more effective. Accountable institutions strengthen civil societies. To succeed in the global economy, nations need fair and transparent legal systems; free markets that unleash the creativity of their citizens; banking systems that serve people at all income levels; and a business climate that welcomes foreign investment and supports local entrepreneurs. As courts resolve commercial disputes, they grow better able to resolve civil and political disputes. As institutions enforce the laws for business, they get better at enforcing the democratic laws of a society. As transparency is fostered to fight corporate corruption, it becomes harder for political corruption to go unnoticed. And these obviously are all points that get to what I was saying at the beginning of my remarks which is that all of these things that we are focusing on are interrelated.

Both U.S. and Azerbaijani businesses have said repeatedly that corruption is the greatest risk in the business environment. Now, from my many meetings that I have had here in February, in Washington, D.C., and with Azerbaijani officials during this trip, there appears to be the necessary commitment to fight corruption. But what we believe is needed is a strong and sustained effort to implement this commitment into action – and that is very important. Ambassador Derse, who has been outspoken and a proponent of this issue has focused on this issue of corruption. She laid out 6 criteria that we view as very important with regard to implementing this into action. I want to reiterate those. The 6 areas that we think should be included in Azerbaijan's Anti-Corruption Plan are: the adoption of an anti-money laundering law and the creation of a financial intelligence unit to enforce it; public disclosure by government officials of all their financial assets; a transparent, competitive process for public procurement and management of public financing; specific deadlines for meeting GRECO and UN Convention obligations; a regular reporting and monitoring process with the participation of civil society to assess the implementation of anti-corruption measures; an independent, ethical, and professional media and strong government protection for freedom of the press so journalists can report effectively on corruption free from the fear of prosecution or personal harm.

As part of the EPC process, Azerbaijan has pledged to enact specific legislation to help fight the scourge of corruption. And can say from my meetings over the last two days that there has definitely been progress in moving this forward.

WTO Accession

Now the next issue, the final issue I want to discuss, and it is related to some of the others, is the issue of WTO accession – something that we are also focusing on in the EPC. We believe that accelerated accession to the WTO will help create the transparent legal and regulatory environment necessary to combat corruption, as well as to attract trade and investment. President Aliyev's commitment to WTO accession and the legislative agenda to bring Azerbaijan's trade regime into WTO compliance have reinvigorated Azerbaijan's accession process. Again, during my meetings over the last two days, it was clear that this issue has been the focus of top-level government officials and we believe there has been significant progress over the last 9 months. We fully support this progress and Azerbaijan's accession to the WTO and we look forward to holding our bilateral negotiations on the basis of revised offers in the negotiation process. As I mentioned, the EPC is also very focused on this issue. We have renewed our commitment to provide technical assistance on WTO accession and trade capacity building, which will help prepare Azerbaijan for its more thorough integration into the global economy.

We believe that Azerbaijan will start to reap the rewards of WTO accession even before it becomes a WTO member. The process of attaining membership helps bring countries into line with global trade standards, making them attractive for trade and investment. Azerbaijan can help itself the most by renewing its commitment and enacting the necessary legislation to bring its trade regime in line with WTO standards.

And a key to pressing ahead will be the need to help educate the public – and maybe you can do this - about the benefits of economic liberalization, diversification, and prosperity that WTO accession will bring. As I mentioned in all of my meetings over the past two days, this is not an easy task. As a matter of fact, it is a task that countries have to do regularly, including in the United States. Right now, in my country, there has been a very heated debate on the benefits of an open economy, and the benefits to continued economic liberalization. So it's not just an issue for countries that want to join the WTO, it's an issue for countries who were founding members of the WTO. So it's not easy. We need to help educate the public. People like you can be ones to make the case. But we believe at the end that when you look at the costs and benefits, the benefits clearly outweigh the costs. The benefits for Azerbaijan, you can argue, are clear: 1) greater transparency which will help in the fight against corruption; 2) a more stable legal regime and business environment which will speed foreign investment and economic diversification; and 3) a more open economy which can reduce inflationary pressures and break monopoly power that stifles economic opportunity. So those are three of the many reasons that we think WTO accession will be helpful.

Conclusion

I want to conclude by saying that we are working together through the U.S.-Azerbaijan EPC and Energy Dialogue, the U.S. and Azerbaijan will deepen our already strong cooperation in the area of energy and economic policy. Your country has been blessed with a rich culture, wonderful heritage, abundant natural resources, and resilient, talented people. It is clear to me and hopefully it is clear to you that the future is bright here. But now is the time to extend and spread the opportunity and prosperity that this country has been blessed with. You will have a strong and reliable partner in the United States government and in the form of the people of the United States in helping you on this journey in economic and energy cooperation.

Thank you.

[Followed by Q & A]

QUESTION: [indistinct – paraphrase: What role is Azerbaijan playing in terms of global energy security?]

ASSISTANT SECRETARY SULLIVAN: I think that's a great question, something that we think about quite a lot. From a policy perspective on a very broad, global front, for the U.S. – I think that the key is the issue of diversification, both diversification of supply of hydrocarbons, but also the diversification of types of energy. Right now we have a situation where energy markets are very tight. The price of oil is unusually high. So what we have been trying to do is work a global policy that again focuses on diversification.

Azerbaijan has played a critical role in this regard. When you look at the BTC pipeline, this is really a critical element of energy diversification in terms of supplies and routes. We applaud you for your leadership and regional in making that happen. It was a great cooperation, not only within the region, but also between the United States and Azerbaijan and the BTC supply pipeline is one key element of diversification that has had a significant impact globally. So that's diversification from the standpoint of routes.

In terms of world-wide energy sources the Caspian region has played a critical role from a global perspective. Also, there is diversification of types of energy and that's been a large focus of United States policy as well.

As an example of our commitment to energy diversification, we have established a very important strategic relationship with Brazil in the western hemisphere with regard to our cooperation in the area of biofuels. There is a considerable focus in the U.S. on developing and deploying these types of renewable resources and energy that we think have significant potential, but again, all fit into the broader, global energy security strategy of diversifying types, sources, and routes of supplies of energy.

That's why today's announcement regarding the USTDA feasibility study, about what we consider to be the next stage of Caspian energy development, will also be important from the standpoint of energy diversification.

QUESTION: [paraphrase - Do you believe the NABUCCO project is viable without Turkmenistan energy resources? Impact of U.S. policy towards Iran on Azerbaijan?]

ASSISTANT SECRETARY SULLIVAN: With regard to your first question, we believe that in the Caspian region there is sufficient gas to fill several of the phases of the NABUCCO project. But this is something that is obviously going to be an important issue for the commercial investors who invest in the project.

We know that the development of that pipeline is a long-term project that depends on many complex issues and factors. And Azeri gas we believe can play an important role in development of the NABUCCO project as well.

With regard to Turkmenistan gas, this is a very interesting question, particularly given the new leadership in that country. I do not want to speak for the Turkmenistan leadership, but I was actually in Turkmenistan before coming here, meeting with the President and senior government officials. The message I received was that they are very interested, interested to develop their energy sector more fully. And they are also very interested in diversifying their routes of supplying energy to the rest of the

world, including possible routes west across the Caspian.

But one of the points I made in my meetings there was that it did not seem to be in their interest to have only one or two buyers of their gas. Again, this goes back to the issue of the importance of diversification both for buyers and sellers of energy resources.

On Iran, another very good question. Of course we know that geographic proximity is an important issue with regard to Iran and Azerbaijan.

I think the important issue that needs to be underscored with regard to Iran is that sometimes the issues are framed in a way where it sounds like issues with Iran and the United States. But that's not the case. What's been going on with regard to Iran is Iran's isolation from the entire international community. So these are issues that involve Iran and the rest of the world.

And I think that has been demonstrated with the diplomacy at the United Nations where there have been two UN Security Council resolutions, unanimous Security Council resolutions, that have focused certain sanctions on the Iranian regime. So given that situation and their desire with regard to what we believe is a nuclear weapons program, we do not believe that it is time for business as usual with regard to Iran. And pretty much every country we speak to with regard to this, even countries in the region which are near them, agree.

QUESTION: [indistinct - Follow up on Iran]

ASSISTANT SECRETARY SULLIVAN: Well again, I think this is an issue that has been addressed at the United Nations. It is an issue between Iran and the international community. And again, I think it is clear from these unanimous Security Council resolutions that it is not time for business as usual with regard to Iran. So, does that mean that businesses will be curtailed with regard to Iran and the international community? I think the answer is "Yes."

QUESTION: ...on U.S. efforts to encourage development of the non-oil sector?

ASSISTANT SECRETARY SULLIVAN: I think this is a critical question with regard to the future of the economy and prosperity of the country and the people. My own view with regard to meetings that I have had here and what has been expressed to me previously is that government officials are very focused on trying to diversify the economy. That's the clear sense that I get. But, as you know, that can take time.

I did raise this issue. We talked about it, I think, in every one of my meetings, and one of the things that we are trying to emphasize is that the reform that the government wants to undertake in certain areas, we think if it is undertaken well, will significantly help the diversification of the non-oil sector economy.

So, for example, the anti-corruption measures would help make it more inviting for businesses whether they be local businesses or foreign companies to come into the non-oil sector economy of Azerbaijan.

Similarly, WTO accession, by increasing competition, we think would have, as I mentioned in my speech, several positive effects – transparency is but one of them that we think would be important – but, increasing competition and helping provide more competition for some of the bigger monopoly types that stifle competition would help diversification.

So, yes, I think you asked one of the most important questions for the future of this country and we talked about it in every one of my meetings.

QUESTION: [indistinct – paraphrase: Do you think Russia will seek to block the initiative for a Trans-Caspian pipeline?]

I don't know ... maybe the next time you have a Russian official in town you should ask him that question. What I can say is that – with regard to the principles by which the major economies of the world think about energy security and energy supply – that the Russians have committed to very similar principles that we have in the G-8.

What I'm specifically talking about are the St. Petersburg G-8 energy security principles – and you can go on the internet and look up these energy security principles – it's what all G-8 nations have committed to in terms of devising their energy policies.

I was the G-8 negotiator for the United States this past year and the G-8 leaders strongly reaffirmed these St. Petersburg energy principles just two months ago. These energy security principles emphasize the diversity of supply, sanctity of contract, transparency, open investment in the upstream, things that we were essentially talking about earlier.

My view is that countries are committed to these energy security principles and so wouldn't want to do anything to disrupt more energy supplies. They would want to encourage the diversifying. Take a look at these energy security principles. This is something that we negotiated with all the G-8 countries and believe is extremely important. We asked other countries that aren't G-8 countries to endorse them and abide by them and Azerbaijan has done so.

QUESTION: [indistinct – paraphrase: What specific steps did you recommend to Azerbaijani officials with regard to addressing the problem of Dutch Disease?]

ASSISTANT SECRETARY SULLIVAN: I think my answer would be similar to that of the previous question. There are a number of very positive things that the government is doing. I went to talk to the manager of the oil fund here, which by the way has just won the first UN award for transparency for any country in the former Soviet Union. Setting up a fund like that, which by the way, not many countries have done, is one way to address the Dutch Disease.

This is one of the ways, for example, that the country of Norway avoided Dutch Disease. With regard to other elements of transparency, as you know, Azerbaijan has been lauded for its commitment to the Extractive Industries Transparency Initiative – the EITI. I believe Azerbaijan is one of the few countries that's focused on implementing the principles, yet another area where the government and the country have done a very good job.

The key is to focus on follow through and implementation of the reform effort of the economy that the government is trying to undertake. This can mean accelerating WTO accession... and by the way, WTO accession can have strong deflationary pressures which would be positive. Most people don't connect the WTO with inflation, they think it is more of a finance issue, but the reason is that when you lower your tariffs you get reduced imports, in terms of prices, you get competition that is spurred by more transparent, open, stable regulatory regimes and open competition. All of these – across the board – produce pressures that keep prices down.

And, of course as I mentioned in my speech, a strong implementation on the anti-corruption and better business environment could help in terms of the economic diversification. All of your questions on the Dutch Disease are very good ones, they are very wise, and I think that the more that you maintain the focus of the citizens of the country on this issue, I think the better for everybody because it clearly is one of the critical issues with regard to the future of Azerbaijan. As close partners with the government and the people, the United States is very focused on this and we are doing what we can in terms of raising this issue and keeping a focus on it as well because we know how important it is for the prosperity of people like you and your families and your country.

That was a long answer to a short question.

QUESTION: [indistinct – paraphrase: As Azerbaijan reaps the benefits of its energy revenues, government officials are becoming more self-confident and less susceptible to the traditional tool of foreign technical assistance to urge them to adopt necessary reforms. Have you noticed this and what types of tools are you using

instead?]

ASSISTANT SECRETARY SULLIVAN: This question raises a very good point, but I don't think what we have launched in February is an exercise, certainly not an exercise in futility. The government is very focused on this – both governments. And one element that we have in the EPC is co-financing, where we work together on things. We are still providing aid in certain key economic reform areas, but given the revenues, we also think that it is appropriate that we tackle some of these issues together with regard to financing.

Another area is benchmarks in the EPC process. What we did was lay out goals and what I did in some of my meetings is reviewed where we've made progress and where we didn't. Another benchmark is the area of education... My government certainly doesn't have all the answers. We make mistakes, frequently. But we do have experts, particularly in the finance area, in the macroeconomic stability area, something that the U.S. Government and our agencies have traditionally done well. So one of the key elements of the EPC is to walk through and discuss the macroeconomic implications of an economy, like Azerbaijan, that's going to be receiving even more significant oil wealth and what can be done from a policy prescriptive standpoint to avoid all the concerns that we've raised here today.

What we're really talking about is education, encouragement, benchmarking, but mostly in the reform area, and one of the areas that we've raised again and again because we think it will be important is accelerating WTO accession talks. That is a tough issue. It's a tough issue in any country that undertakes it. Finally, your government officials are engaged on this. None of them want to see the Dutch Disease happen in this country, just like you don't want to see it.

AMBASSADOR DERSE: Let me just add that it's because the U.S. wants to engage Azerbaijan on these issues and economic reform. Because economic reform is a core part of our bilateral relationship that Assistant Secretary Sullivan is here. He's the first Assistant Secretary of State for Economic, Energy, and Business Affairs to engage regularly with the country in a dialogue like this. He's responsible for the entire world.

He spends a lot of time on major, major issues like China, but Azerbaijan is right up there at the top of his list, in terms of the countries in the world, with which we want to engage on the critical issues of economic reform as part of our broader relationship. So that's a very significant fact and I want to personally thank him for doing that.

He met President Aliyev last July, we launched the EPC in February, he's back here now in August, and we expect to have a further round of discussions this fall in Washington when some of the Azerbaijani officials are likely to be there for international meetings. So that's a high degree of engagement by the U.S. in supporting economic reform in Azerbaijan.

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