

Brussels, 25 February 1992

Note for FileSubject: Azerbaijan

1. Ambassador Rutten and I hosted a lunch on 20 February for Prime Minister Gasánov of Azerbaijan. Others present were Mr Akhundov (Parliament), another Parliament official, Mr Mamedov (Foreign Ministry) and an interpreter on the Azerbaijan side, and Mr Sorokin from the Secretariat.
2. The Prime Minister expressed his satisfaction that Azerbaijan had signed the Energy Charter. He outlined his Republic's energy situation (see below) and emphasised their open attitude to foreign investment. There was an urgent need to modernise their energy system and to 'add value' to oil exports, eg. by petrochemical developments. A draft foreign investment law was now before their Parliament. Technical assistance in financing energy legislation would be helpful. (We recommended them to raise this in their scheduled meeting with Vice President Andriessen.) They were considering the possibility of requiring foreign companies to reinvest a proportion of their income in Azerbaijan. We said that it was not yet clear whether this last point would be addressed in the Charter negotiations, but it could be a sensitive issue.
3. On a wider political front Azerbaijan intended to 'look all ways' and was developing links with non-CIS countries in its region such as Iran, Afghanistan, Turkey and Pakistan. Nevertheless the intention was to remain a secular society. Such co-operation might include energy infrastructure connections, for instance in electricity, where Azerbaijan had major hydropower potential. The Prime Minister asked whether their membership of the Charter would prevent their joining OPEC or IPEC, or determine the destination or price of their oil exports.
4. We explained the nature of the Charter co-operation, that it would not exclude other relationships and that oil supplies and prices would remain to be determined by the market. We also emphasised the importance of Azerbaijan taking part in the Basic Agreement negotiations and signing that document. The Prime Minister agreed with this view and said that Azerbaijan intended to be a 'real partner' in this European initiative.

5. Main points on the Azerbaijan energy situation were:-

(I) they were the only fully self-sufficient Republic in energy terms;

(II) oil production was about 12 million tonnes a year which they hoped to expand to 20 million tonnes. A consortium of Amoco, BP and Unocal were doing a feasibility study for Caspian offshore shelf developments;

(III) oil exports were continuing to Russia, Georgia and (!) Armenia, but it was Azerbaijan's policy that such trade should in future be mutually beneficial and be conducted at world price levels;

(IV) most of their electricity was generated from three major hydro-plants and a gas-fired power station at Baku. Feasibility studies had been completed for a first nuclear station but this project had been shelved after Tchernobyl. Nevertheless they were not hostile to nuclear power provided safety could be assured;

(V) they were negotiating with Siemens for the supply of energy efficient equipment (boilers?) which could save as much as \$1.5 billion of fuel oil over time. This investment would be paid off from the savings achieved.



Clive Jones

cc: Bureau Members  
Secretariat Members