

European Union Conditionality through the Eastern Partnership
The Incentives behind cooperation.
The Case of Azerbaijan.

By

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Author's Declaration

I, the undersigned Irana Mammadova hereby declare that I am the sole author of this thesis. To the best of my knowledge this thesis contains no material previously published by any other person except where due acknowledgement has been made. This thesis contains no material, which has been accepted as part of the requirements of any other academic degree or non-degree program, in English or in any other language.

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Abstract

The thesis explores the incentives behind Azerbaijan's cooperation in the Eastern Partnership Program (EaP) given the absence of the European Union (EU) membership and conditionality principle of the cooperation. Using the Rational Choice Institutionalism (RCI) the thesis explains the choice made by Azerbaijan as an institution for cooperation. In line with this, the External Governance Model reveals the conditionality policy utilized by the EU towards non-state actors. The case study discusses the incentives of both sides for cooperation within the EaP. The case of Azerbaijan shows how the EU conditionality and bargaining policy of Azerbaijan are changing regarding the interests of both sides. The more energy sources the EU gets from Azerbaijan the less conditionality principle is applied.

Key words: Azerbaijan, Eastern Partnership, cooperation, conditionality, incentive, rational institutionalism, rational choice

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List of Abbreviations

AA – Association Agreements

DCFTA – Deep and Comprehensive Trade Agreement

ECU/CU – Eurasian Custom Union

EEU/EU – Eurasian Union

EaP – Eastern Partnership Program

ENP – Eastern Neighborhood Program

MoU – Memorandum of Understanding

NK/NKR - Nagorno-Karabakh

RCI - Rational Choice Institutionalism

SCP- South Caucasus Pipeline

WTO – World trade Organization

Table of contents

Introduction	1
Chapter One. Establishing a Framework for Discussion	6
<i>1.1 Literature Review</i>	6
<i>1.2 The Search for an Analytical Framework: Explanatory Models</i>	9
Chapter Two. Methodology and Research Design	12
<i>2.1 Case Study</i>	12
<i>2.2. The Research Question and Hypotheses</i>	13
<i>2.3. Qualitative Research Design</i>	14
<i>2.4. Elite interview</i>	15
<i>2.5. Transcribing, Coding and Memoing the Interview</i>	16
<i>2.6. Ethical consideration</i>	17
Chapter Three. Analysis and Results	18
<i>3.1. EU's Energy Policy: shift in conditionality?</i>	18
3.1.1. Trade as engine for EU Market Integration.....	24
<i>3.2. How Rational Institutionalism explains Azerbaijan's preference of the EaP over the Russians' Custom Union</i>	28
<i>3.3. The Settlement of the Nagorno-Karabakh Conflict as a Priority Objective for the Eastern Partnership Cooperation</i>	32
Conclusion and Policy Recommendations	36

Appendix A	38
Appendix B	40
Bibliography	41

Introduction

The process of expanding of the EU through accession of a new member states began with the six original countries that formed the European Economic Community. Since then the EU has grown to encompass 28 states (EU 28). As a part of the enlargement EU launched the European Neighborhood Policy (ENP) that aimed to strengthen prosperity, security and stability while avoiding dividing lines between neighboring countries. Many ENP countries sought to become a members or prospective members of the EU. The founding documents of the EU do not specify the geographical boundaries of Europe and indeed state that membership is opened to all new countries. In this way, any country that fulfills the economic and political requirements of Copenhagen Criteria may apply for the EU membership.

The enlargement in the East brought new initiatives into the EU's policy. In particular, the Eastern Partnership Program (EaP) was launched as a new initiative with six post-soviet countries: Azerbaijan, Armenia, Georgia, Ukraine, Moldova, and Belarus. For Korostoleva, the program sought to provide a “more region focused and tailor-made approach”¹ that “tends to present itself as a force for goodness in international society”². The Eastern Partnership Program is based on the principle that more stable and reformist a country is in economic and political matters, the more effective partnership it is eligible to partake in with the EU. For Korostoleva, more-for-more is the idea that the more countries comply with the EU “ready transfer” rules to conduct domestic reforms in political and economic spheres, the more “rewards” (such as financial assistance) they will receive.³

¹ Korostoleva E., “The European Union and its Eastern Neighbours: Towards a more ambitious partnership?”, Basees/Routledge, 2012, 7

² Jørgensen and Laatikainen, 2004, as cited in Sjursen H., “The EU as a ‘normative’ power: how can this be?”, *Journal of European Public Policy*, 2006, 240

³ Korostoleva, “The Black Sea region”, 240

The novelty of the Eastern Partnership compared to the ENP is that the EaP envisages a strong political and economic interaction through updated Association Agreements (AA) that include trade and travel deals, people-to-people exchange and visa facilitation agreements. One further aspect is that EaP promotes a close cooperation in energy supply and security. Moreover, the Partnership has prioritized the policy of dealing with frozen conflicts, human rights and civil society issues to stimulate partner countries for domestic reforms.⁴ However, both the ENP and EaP have yet to crystalize from cooperation and conditionality into formal institutions. Through the EaP, the EU declared its policy of expansion without actual geographical enlargement. Thus, the conditionality remains to be the guiding principle of the EaP in asymmetrical bargaining mode with the applicant countries (the other two - joint ownership and differentiation).⁵

Azerbaijan-EU cooperation dates back to well over a decade before the EaP. The EU has recognized the strategic role of Azerbaijan by the Memorandum of Understanding in 2006. The document increased the role of Azerbaijan as an energy supplier for the EU. However, Azerbaijan is experiencing some challenges with the EU when it comes to civil society and human rights aspects that are priority fields of the EaP cooperation. On the one hand, Azerbaijan is criticized for violation of human rights and crackdown on civil society. On the other hand, if the government is willing to cooperate with the EU, it had to comply with the EaP conditionality principle. In this regard, having experiencing a pressure from the EU and it is interesting what the motives of Azerbaijani government to cooperate within the EaP. Trying to find the answer led me to formulate the following research question: *what are the incentives of*

⁴ Launched in 2010 the Forum creates a platform for NGOs to develop joint activities and promote European integration for non-member states. For more details, see Stefan Fule “Strong Civil Society Pillar- Major Objective of the EU Eastern Partnership Policy”, SPEECH/10/78, Brussels: European Economic and Social Committee, 8 March, 2010

⁵ See, Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Eastern Partnership: A Roadmap to the autumn 2013 Summit.

Azerbaijani government to cooperate in the Eastern Partnership Initiative given the absence of EU membership prospective and rigorous conditionality principle of the partnership?

Building answers, I formulated three hypotheses. The first hypothesis argues that intention to expand and deepen cooperation in energy security sectors within the EaP is the primary ambition of the Partnership. Close ties with the EU in energy supply sector result in increasing trade flows and foreign direct investment (FDI) from the EU within the EaP as an institution for cooperation. This approach also benefits the EU as decreases its dependency from Russian's gas supply. My second hypothesis claims that Azerbaijan's increasing role within the EaP decreases government's dependence from the Russian's led Custom Union and thus, helps to maintain the balanced and independent policy. And finally, the third hypothesis argue that Azerbaijan's motivation for the EaP cooperation is to enlist the support from the EU in Azerbaijan-Armenian Nagorno-Karabakh conflict resolution process.

The thesis applies the rational institutionalism theory of the international relations. Following an approach of the theory, the thesis assumes that states are rational actors that use institutions to maximize the achievement of their preferences. The use of rational institutionalism provides a theoretical framework for the thesis and explains the choice of the EaP as a preferred institution by Azerbaijan. The theory claims that states, by cooperating within the institutions, attempt to reduce the transaction costs of activities which they carry out for mutual benefit. In line with this approach, the thesis also employs an external incentive model by Schimmelfenning and Sedelmeir as an analytical tool. The external governance model is used to explain the EU enlargement policy and EaP conditionality towards non-member states. Using this model as a tool for assessment of conditionality policy of the EaP, the thesis concludes that despite the EaP conditionality, a bargaining strategy of reinforcement by reward, and lack of membership prospective, the countries are nevertheless willing to comply with the EU conditions.

It is necessary to clarify that even the conditionality principle is more understood as a policy of EU's enlargement towards non-member states, but the concept is also applicable towards those states that are cooperating in the programs of the EU. Based on this, the thesis uses the conditionality as the policy of the EU in the framework of the EaP.

The case study of Azerbaijan reveals the reasons behind this cooperation. Azerbaijan needs to increase cooperation with the EU in the energy and trade sectors. This is because the cooperation in the EaP framework allows Azerbaijan to achieve a foreign policy with some measure of independence from Russia. Likewise, the EU remains interested in diversifying its energy supply partners and thus, is unwilling to apply negative conditionality to enforce Azerbaijan's compliance with civil society, human rights and democracy-building developments that are the EU's priorities in the EaP cooperation.

Bringing together the theoretical framework and methodology, the thesis aims to provide a deeper understanding of the EU-Azerbaijan relations within in the EaP given the conditionality principle and the absence of EU membership or any prospect thereof.

The main limitation of the thesis is that there are few available academic works that deal with the EU-Azerbaijan relations within the EaP. Therefore, the thesis is largely restricted to referring to Azerbaijani academic scholars. For this reason, my thesis will help to enrich and fill the gap in academic literature. Moreover, the case study has some limitation in methodology. The collection of data through governmental web sites was limited in transparency. However, the limitations are not fundamental and do not invalidate the research.

The thesis is structured in the following way. After the Introduction, Chapter One establishes a theoretical scope for discussion through the literature review and analytical framework. The relevant literature and theoretical framework reveal debates on the EU conditionality and enlargement policy

through the lens of the EaP. The subsequent chapter provides a methodological framework of manual content analysis and elite semi-structured interviews that are the best-suited methods to answer the research question. The chapter also examines the case study of Azerbaijan. The last chapter discusses and analyzes hypotheses. At the end, the thesis concludes with an established argument and concludes in favor of one hypothesis while rejecting two others.

Chapter One. Establishing a Framework for Discussion

The aim of this chapter is to provide a literature review and theoretical framework for answering the research question. The first section reviews scholarly literature on the EU policy of conditionality regarding non-members to understand the enlargement policy of the EaP. The second section examines models which have been proposed for explaining the conditionality that incentivizes non-state actors for EU cooperation.

1.1 Literature Review

The conditionality policy of the EU has received substantial scholarly attention. The EU conditionality is conceptualized as a one-size-fits-all approach that, utilizing positive and negative remuneration packages, incentivizes non-member states to cooperate with the EU. The literature review section discusses past insights on the debates on EU conditionality as a policy for the EU enlargement.

Moravcsik and Vachudova apply the rationalist approach to international relations in order to explain EU enlargement as a bargaining game.⁶ They take the “asymmetrical interdependence”⁷ policy of the EU to include not just formal agreements regarding accession and association to the EU for non-member states, but also negotiations regarding economic cooperation. Both sides are conceptualized as

⁶ Andrew Moravcsik and Milada Anna Vachudova, “National Interests, State Power and EU Enlargement”, *East European Politics and Societies* 17, no. 1, 2003, 43.

⁷ The concept is coined by R. Keohane and J. Nye in the “Power and Interdependence: World Politics in Transition”, Boston: Little, Brown, 1977

recognizing and pursuing “national interests and state power”.⁸ For the EU these interests are both economic and geopolitical, whereas non-member states are in most cases concerned with not “being left behind”⁹ by neighbors in economic development. For example, Moravcsik explains the desire of non-state actors to integrate with the EU in terms of the desire for greater economic exchange and prosperity¹⁰. This rationalist-institutionalism approach to IR is typically contrasted with liberal intergovernmentalism, which takes the prime driver of the EU enlargement to be “the expansion of international community”¹¹ between “countries [which] share liberal values and norms”.¹² For the purposes of this dissertation, I shall assume a rational-choice approach as the basis of any model for explaining cooperation, and the lack thereof, between the EU and Azerbaijan.

Conditionality is widely taken to be a central concept in understanding the enlargement of the EU. My suggestion here is that the same principle of conditionality can also be used to explain the EU’s negotiations with states (such as Azerbaijan) which have no prospect of becoming members - or even candidate members – for the foreseeable future. In 2005 Smith tried to explain the EU enlargement policy.¹³ For her, it was unclear how a Union that offers no membership and is engaged in unbalanced relations can incentivize non-members to cooperate. One possible explanation that she gave is the principle of “shared values” as “an attempt to create good neighbors” that “conform not only ‘EU values’ but also EU standards and laws” in spheres of economic as well as social areas.¹⁴ Based on this she

⁸ Moravcsik and Vachudova, “National Security,” 43

⁹ Ibid.

¹⁰ A. Moravcsik, “The Choice for Europe: Social Purpose and State Power from Messina to Maastricht”, Cornell University Press, 26, 1998

¹¹ Frank Schimmelfenning, “The Community Trap: Liberal Norms, Rhetoric Action, and the Eastern Enlargement of the European Union”, *International Organization* 55, no.1, 2001, 47

¹² Ibid., 48

¹³ Smith K., “The outsiders: The European Neighbourhood Policy”, *International Affairs*, v. 81, no 4.

¹⁴ S. Karen, “The Outsiders: The European Neighborhood Policy”, *International Affairs*, 81 (4), 763

criticized the EU for what she described as a “self-interested” policy offering undifferentiated “ready models”¹⁵ to all candidate members.

Another criticism of the EU’s policy of conditionality is raised by Kelley. She argues that ENP/EaP initiatives on “shared norms and values”, in fact, “are a diluted version of enlargement policy”¹⁶ that wrongly applies the partnership concept of EU to non-members. Thus, although it is clearly modeled upon the EU-centric nature of cooperation, this fails to provide sufficient incentives for third countries.

A third and altogether different attitude towards EU conditionality towards non-member states is displayed by Sasse. For her, the “conditionality-lite” becomes a solid reason for domestic reforms and a reason for cooperation in many sectors within the ENP.¹⁷ In this way, the policy of conditionality provides a platform for cooperation and fosters close ties for non-candidate states in many fields.

Debates on the conditionality of the EU towards partner countries draw attention to the *acquis communautaire* which is pushed as a basis for domestic reforms in non-member states.¹⁸ Elaborating upon this, Vachudova offers both an active and targeted conditionality that incentivizes countries through the provision of financial aid, and a passive conditionality that implements sanctions and withdraws financial assistance.¹⁹

¹⁵ Ibid., 765

¹⁶ Judith Kelley, “New Wine in Old Wineskins”, 30

¹⁷ Gwendolyn Sasse, “The ENP Process and the EU’s Eastern Neighbours: “Conditionality-lite”, Socialisation and “Procedural Entrapment””, Global Europe Papers 2008/9, workshop, University of Nottingham, 25-26 October, 2007, 2

¹⁸ Dimitry Kochenov, “EU Enlargement and the Failure of Conditionality: Pre-accession Conditionality in the Fields of Democracy and the Rule of Law”, Alphen aan den Rijn: Wolters Kluwer Law & Business, 2008, 65

¹⁹ Vachudova A., “Europe Undivided: Democracy, Leverage, and Integration after Communism”, NY, *Oxford University Press*, 2005, 341

1.2 The Search for an Analytical Framework: Explanatory Models

In the light of the above-reviewed literature, this sub-chapter moves the focus of analysis to the conceptual foundation of the EaP. To understand the incentives of Azerbaijan's cooperation within the Eastern Partnership, it is important to set a theoretical framework for the EU regulation policy with non-members in the framework of the EaP.

The thesis is based on a rational institutional theory of IR which considers states rational actors to make preferences among available choices. According to this model, international actors are utility-maximizers that are interested in achieving their particular goals – whether these goals are economic cooperation, domestic sovereignty, or anything else. In line with this, a relatively new model of IR sets one more theoretical backbone for EU conditionality- the *external governance* approach proposed by Schimmelfennig and Sedelmeir.²⁰

The first model of this approach - the *external incentive* model - explains the EU conditionality through positive measures as remuneration and negative means as sanctions. Compliance with the EU rules and norms is a promised positive reward in the form of partnership and cooperation or financial benefits as aid assistance to third countries. States' incentives and decisions as rational actors on whether or not to comply with EU conditionality depend on (i) the determinacy of conditions, (ii) the size and speed of rewards, (iii) the credibility of threats and promises, and (iv) the size of adoption costs.²¹ Therefore, “a state adopts EU rules if the benefits of the EU rewards exceed the domestic adoption costs”.²²

²⁰ Schimmelfennig and Sedelmeir, “Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe”, *Journal of European Public Policy* 11, no. 4, August 2004, 661-679.

²¹ Schimmelfennig and Sedelmeir, “Governance by Conditionality”, 664

²² Ibid.

The second model - *social learning* follows the logic of appropriateness. In this case, the non-member states voluntarily adopt an EU identity without requiring any special remuneration, since the values and norms in question are considered appropriate by the state.²³ The European Union is seen as an aspiration to which non-member countries are willing to belong despite a rigorous conditionality principle. The last model is *lesson drawing* model. According to this approach, non-member states adopt EU rules without incentives only if “the rules effectively solve the domestic problems”.²⁴

As a basis for its theoretical approach, this thesis employs the first, *external governance model* to explain the reasons of compliance with the EU conditionality. First, the low domestic cost of compliance is the primary *stimuli*, the incentives that explains why countries accept the policy of conditionality. Second, the speed of rewards is another factor in determining the responsiveness of non-members to the EU’s policy.

The *governance model* gives more attention to the appropriate incentive-structure and “double standards” principle which is applied towards partners.²⁵ To be more precise, *governance* presumes cooperation through “suitable incentives- structure to induce [third countries] on compliance and control”²⁶ with internal political reforms. In other words, the reforms are highly required by the EU, especially in cases where the incentives are weak and non-member countries face highly uncertain outcomes.

The *governance* approach further was developed in an allegedly new governance model - “*good governance*” - which focuses on a participation and social learning process of non-member states with the EU. However, there is nothing new in a new “EU mode of governance” beyond modification and

23 Ibid., 668

24 Ibid., 667

25 Korosteleva E, “The European Union and its Eastern Neighbours”, 46

26 Ibid.

politization of the way in which rules are transferred to outsiders.²⁷ The same asymmetrical relations with non-member countries on negotiations and agreements, the power to enforce the conditionality principle through the accession and association programs involve nothing new. For this reason, the EU's "new governance" through conditionality continues to "exhibit primarily characteristics associated with 'old governance'".²⁸ In summary, whether the governance is "old" or "new" the politicized nature of control remains to be operated through conditionality as a process of transferring EU "norms and values".

Lavenex has advanced a package of criteria about the EU conditionality towards non-member states. She argues that governance goes beyond the EU/EaP framework of partnership as it is "a system of rules which exceeds the voluntarism implicit in the term of cooperation".²⁹ The cooperation of the EU with third countries in providing them a technical and legal assistance has so far proven more successful than EU's political *acquis communautaire* which is concerned more with democratic consolidation. As Pridham noticed, the scope of conditions of EU extends greater demands for democracy, human rights, and civil society issues before opening to the accession programs and partnership than does the EaP.³⁰

Levitsky and Way developed a theory of linkage and leverage which claims that the degree to which governments are vulnerable to external democratic pressure depends on whether they are aid-dependent countries with weak economic and political ties or bigger countries with sustainable economies.³¹ Thus, if incentivized by aid provisions which are large relative to the overall size of their economies, non-member states will comply with the political conditionality of the EU. This approach explains the reason behind the EU cooperation given the absence of membership prospective.

27 Shimmelfennig and Sedelmeier, "Governance by Conditionality", 675

28 Ibid., 675

29 Lavenex S, "EU External Governance in 'Wider Europe'", *Journal of European Public Policy*, 15, no 6, 682

30 Pridham G, "Change and Continuity in the European Union's Political Conditionality: Aims, Approach, and Priorities", *Democratization* 14, no. 3, 2007, 452

31 Levitsky S., and Way L., "Linkage versus Leverage. Rethinking the international dimension of regime change", *Comparative Politics* 38, no. 4, 2006, 382-83

The financial assistance as an incentive for accepting the EU conditionality can be successful with aid-dependent countries, but the same conditionality is not equally effective in other countries. Therefore, there should be other incentive mechanisms that motivate non-members for cooperation and partnership. The reasons which we have touched upon here will be elaborated in Chapter Three.

Chapter Two. Methodology and Research Design

This chapter explains the choice of the case study, and research question and hypotheses. Following this, the third chapter discusses the method of gathering and transcribing the data.

2.1 Case Study

The EU obviously influences its member states and states which are prospective members, but it is much less obvious how it is to seek influence in states beyond the projected future border of the EU. The relationship between the EU and Azerbaijan can therefore be taken as a case study in how it goes about seeking influence abroad. Azerbaijan-EU cooperation dates back to before the inception of the EaP, almost to the foundation of Azerbaijan as an independent state following the collapse of the Soviet Union. The EU recognized the strategic role of Azerbaijan in the Caucasian region in 2006 with the Memorandum of Understanding (MoU) that increased EU interests in Azerbaijan's energy capacity.³² However, in the framework of the EaP cooperation Azerbaijan has seen very slow progress when it comes to civil society and human rights aspects that the EU sees as priority fields of cooperation. On the one hand, Azerbaijan is criticized by the EU for violation of human rights and crackdown on civil society. On the other hand, if

³² Shirinov R., "A pragmatic Area for Cooperation: Azerbaijan and the EU", Zu diesem Heft, English Summaries, 2011, 74-75

the government is willing to cooperate with the EU, it had to comply with the EaP conditionality principles. The “one-size-fits-all” model of the EU applied to the EaP partner countries does not fit Azerbaijan’s foreign policy. Azerbaijan “need[s] strong but differentiated approach. In a sense, it “should be a tailored approach towards particular needs and aspirations of [Azerbaijan]”.³³

The case study explains why despite the rigorous-applied conditionality policy of the EU and high pressure on Azerbaijan on the failure to meet the agreed priority fields the country still chooses to cooperate in the framework of the EaP. The case study helps to better understand the incentives and motivations behind the decision to cooperate and be the partner of the EU. It thereby contributes to filling the gap on the existing scholarly literature EU-Azerbaijan relations.

2.2. The Research Question and Hypotheses

Considering the discrepancies and inconsistencies mentioned in the section 1.1, it is worth considering what the incentives of Azerbaijan behind the Eastern partnership are. Starting from this point and analyzing the EU-Azerbaijan relations in the framework of the EaP I formulated the following research question: *what are the incentives of Azerbaijani government to cooperate in the Eastern Partnership Initiative given the absence of the EU membership prospective and rigorous conditionality principle of the partnership?*

Attempts to answer my research question led me to formulate three hypotheses.

³³ Interview with the Spokesperson of the Ministry of Foreign Affairs of Azerbaijan, Hikmat Hajiyev. Baku, 8 May, 2017

Azerbaijan's possession of large hydrocarbon resources and location between East, West and Central Asian energy producing regions raises its values as an energy supplier. Moreover, Azerbaijan's leading role in the Black Sea region makes the country an attractive strategic partner for EU cooperation. Likewise, the EaP as an institution gives Azerbaijan an access to the EU market and, thereby, motivates the country to diversify its economy. Thus, *the intention to expand and deepen partnership in energy supply is the main motives for cooperation which also increases the trade, foreign direct investment (FDI) and thus, the flow of capital.* The mechanism of exchanging finance for policy reforms is a "reward" of the EU to promote domestic changes within Azerbaijan. Azerbaijan's increasing trade with the EU in energy makes the country one of the main oil suppliers for the EU region. Such bilateral energy cooperation reduces energy dependency of the EU from Russian's gas supply, and for Azerbaijan can be considered as an alternative to the Russian's led Custom Union (CU). *The EaP cooperation as an institution helps Azerbaijan to maintain a more balanced foreign policy, in which it is not dominated by any one neighbor.* Azerbaijan considers the de facto independence of NK to be a violation of its sovereignty. One of its primary reasons for cooperating within the EU is to enlist the support of the EU in this dispute. *Azerbaijan's primary expectation from the EaP is the EU should become more involved in resolving the Nagorno- Karabakh conflict.*

2.3. Qualitative Research Design

The thesis uses the qualitative research methodology that is appropriate for small samples where outcomes are not measurable. The advantage of this methodology is that it allows me to analyze the subject of the research without limiting the scope of research and interviewees' responses. The interviews as a data collection method in a qualitative research made it possible to better understand the motives of

cooperation given the conditionality of partnership. The thesis also applied deductive reasoning as a research approach. This approach allows me to develop hypotheses based on the theoretical framework, and then design a research strategy to test the hypotheses.³⁴

In gathering the data, I used academic literature, documents from the official websites of the EU and the published data of the EU Delegation in Azerbaijan. In collecting the primary data, I used semi-structural and open-ended questions. For this purpose, I travelled to Azerbaijan to conduct interviews with local experts and officials. During the interview I mostly wrote notes, however with the expert from Brussel I conducted a skype interview and was allowed to record the whole process. These recordings and notes were later transcribed for analysis of data.

2.4. Elite interview

Within the context of my research I found it appropriate to conduct elite interviews. I tried to assure the diversity of views by selecting experts from both Azerbaijan and Brussels who could provide me in-depth information. During my research visit to Baku, I conducted interviews with the Spokesperson of the Ministry of Foreign Affairs, the Political Officer of the EU delegation, a political analyst and two specialists from the Azerbaijan National Academy of Sciences.

One interview was conducted via Skype with an expert from Brussels. Unfortunately, the attempts to get more contacts with officials from Brussels proved fruitless. However, the answers of the single representative from Brussels were open, and unrestrained.

34 Wilson J., “Essentials of Business Research: A guide to Doing Your Research Project”, SAGE Publications, 2010

Only two interviews were conducted in English. The rest were in the Azerbaijani and Russian languages. However, translating made the interview transcribing process easy. I became much more familiar with the text that further facilitated the coding process. Members were selected on the basis of their special relationship to the subject and work experience in the foreign policy of Azerbaijan.

The in-depth semi-structured and open-ended format of questions were described to interviewees. I opted for this method of questioning because I was able to control the interview by guiding the process and was free to get new information if needed. New information allowed me to develop some lines of enquiry that I could not predict in the preparatory stage. In addition, I was able to interject some additional questions if appropriated. The questions were related to the first and second priority areas that Azerbaijan and the EU identified to cooperate within the Eastern Partnership in sectors of energy security and energy supply, trading partnership and cooperation in human rights and civil society areas.

2.5. Transcribing, Coding and Memoing the Interview

The data analysis of interviews in the initial stage included analyzing interview questions. The method gave me understanding of what is important in the context to identify as key words and then to code and develop them into categories.

Due to the limited time to develop deep knowledge in coding software I utilized manual method of coding of the interview text. At the first level, I converted my handwritten notes and recordings into digital text in Word documents. Then, I printed and visually scanned the whole text to underline the key words and terms in the context. Counting the frequency which words occurred in the context helped to identify the key words. In the next step, the repetitive words were distinguished into categories. Finally,

the labeled categories of relevant information have been defined.³⁵ Thus, at initial coding step I looked at words and lines as known in *vivo code*.³⁶ In the second phase of coding process I selected what seemed to be useful and elaborated codes into categories. Coding and categorizing of the text provide an analytical turn and shape the skeleton of analysis.³⁷

Coding and categorizing the data could not be possible without writing memos. Notes that were continuously taken in the process of gathering the data later became the memos. Memos helped to formulate the research question and hypotheses of the thesis.

2.6. Ethical consideration

As the research involves data collection through interviews, I tried to ensure its ethical approval by participants. For this, I first contacted participants via emails explaining the aim of the interviews. After receiving consent, I added their names to an interviewees list in the research proposal submitted to the Department. While CEU does not require the obtaining of ethics statements and letter of permission from interviewees, I nevertheless had a responsibility to get approval from interviewees and to ensure anonymity in particular cases.

In order to ensure the consent or anonymity of respondents, after the transcribing the interview the final version was sent to participants. While some wanted to stay anonymous the others agreed to indicate their affiliation in the thesis. These were participants whom I did not have an opportunity to meet in person

³⁵ For more detailed information on how to code the interview, see Strauss A., and Corbin J., “Basics of Qualitative Research Techniques and Procedures for Developing Grounded Theory”, Sage Publications: London, 1998

³⁶ Charmaz K., “Constructing Grounded Theory: A Practical Guide Through Qualitative Analysis”, SAGE, 2006, 42

³⁷ Ibid.

but who agreed to give a written answer to the questions. In this case, it was easy to obtain the consent of interviewees to giving their names and positions in the thesis.

Chapter Three. Analysis and Results

The purpose of this chapter is to assess and highlight the EU-Azerbaijan logical impetus to adhere the ongoing negotiations with the EU. The first section and subsection focus on what formulates the rational decision of the EaP cooperation. Based on the data collected from reports reveal the pattern that asserts the incentive to continue EU-Azerbaijan relations within the EaP which is comparative advantage in the energy security. The second section explains reasons of why Azerbaijan does not consider the Russian led CU as an alternative institute for cooperation. The third section reviews the cooperation as a possible way to promote the progress in settlement of the Nagorno-Karabakh conflict as a priority for both Azerbaijan and EU policy within the EaP cooperation.

3.1. EU's Energy Policy: shift in conditionality?

In order to deepen political and economic ties with Azerbaijan, in 2006 the EU offered an Association Agreement (AA) within the ENP. The joined Action Plan (AP) was initiated to implement the AA. It was decided to prioritize ten fields for cooperation³⁸ that later were divided into three priority areas mentioned in the National Indicative Programs (NIP) and Partnership Instruments (PI).³⁹ In

³⁸ The ENP Action Plan. Azerbaijan, 2006 https://eeas.europa.eu/sites/eeas/files/azerbaijan_enp_ap_final_en.pdf

³⁹ European Neighbourhood and Partnership Instrument Azerbaijan. National Indicative Programme 2011-2013,

https://ec.europa.eu/europeaid/sites/devco/files/nip-azerbaijan-2011-2013_en.pdf

particular, the ENP AP lists the first area of cooperation fields in the following order: to contribute to a peaceful solution of the Nagorno-Karabakh conflict; strengthen democracy; protection of human rights, fundamental freedoms and the rule of law, in compliance with international commitments of Azerbaijan (OSCE, UN). The second, additional, group of priority fields include cooperation in climate investment, fighting against corruption, functioning of trade agreements as well as support the EU-Azerbaijan bilateral relations in economic development area with a special focus on diversification of economy. The last, third group, consists of two priorities related to the justice, security and regional cooperation sectors.

For Azerbaijan, as mentioned above, the first priority objective for cooperation includes the solution over the Nagorno-Karabakh conflict. Whereas in the first group, the EU also included Azerbaijan's involvement in strengthening civil society, human rights and democracy in the country. For this purpose, in 2009 the EU established Civil Society Forum. Two years later, in 2011 the Neighborhood Civil Society Facility was launched to increase the support of the grants and financial assistance to local NGOs. The European Endowment for Democracy (EED) was established at the same year with the purpose to "provide additional support for those [countries] who are engaged in democratic causes in the region".⁴⁰ Yet, the EU's low level of involvement in the progress over Karabakh conflict resulted in Azerbaijan's reluctance to comply with the rest of priority fields proposed by the EU in the first group of objectives. For Azerbaijan, to comply with the principles of "shared values and norms" also means that the EU would act according the priorities that value for Azerbaijan. More specifically, for Azerbaijan the EU should take concrete steps regarding expectations related territorial integrity and active negotiation over Nagorno-Karabakh.

⁴⁰ Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Eastern Partnership: A Roadmap to the autumn 2013 Summit, http://www.euronest.europarl.europa.eu/euronest/webdav/shared/general_documents/joint_communication_eastern_partnership_roadmap_summit2013_en.pdf

Despite the slow cooperation over the first group of objectives much tangible progress has been done in particular fields of the second group of priorities. Namely, Azerbaijan intensified the cooperation in energy security with the EU countries. The same is asserted by the ENP Mid-term report of 2011-2013 which states that despite the low development in democracy and human rights issues, but the country achieved a lot in strengthening the cooperation in energy security.⁴¹ To provide the EU with energy sources, in 2011 the European Commission (EC) initiated the Southern Gas Corridor (SGC) project. The project includes three large gas pipelines, South Caucasus Pipeline (SCP), Trans Anatolian Pipeline (TANAP) and Trans-Atlantic Pipeline (TAP). The SGC is one of the world's largest gas and oil projects. The Corridor connects the natural gas field Shah Deniz that is in Azerbaijan to Europe through Georgia and Turkey. The total investment in the project is estimated 45 billion dollar.⁴² The gas hub increases the size of the exported natural gas and, thus, helps to diversify the energy sector of Azerbaijan. Similarly the project increases "the connectivity role of Azerbaijan where the country's engagement will reduce the transportation costs in terms of delivery".⁴³ At the same time, the SGC is considered the main component of the EU' energy policy. The project aims to diversify the energy supply to the European market.

It is worth noting that cooperation on the rest fields of the second and third areas of objectives remains slow. Azerbaijan' accession to the WTO and negotiations on the Deep and Comprehensive Free Trade Agreement (DCFTA) are not progress at all. Entering the EU trading system occurs out of the WTO membership that increases opportunity for the free trade area for cooperation. Meanwhile, the DCFTA aims to strengthen trade balance between the EU and Azerbaijan. It also concerns the harmonization of the trade-related legislation of partner countries with the EU standards and norms. Thus, the *acquis communautaire* that are the law and regulations of the EU offers the "ready model" to Azerbaijan.

⁴¹ European Neighbourhood and Partnership Instrument Azerbaijan. National Indicative Programme 2011-2013, https://ec.europa.eu/europeaid/sites/devco/files/nip-azerbaijan-2011-2013_en.pdf

⁴² Southern Gas Corridor. Online Column, <https://www.tap-ag.com/the-pipeline/the-big-picture/southern-gas-corridor>

⁴³ Interview with Hikmat Hajiyevev 08 May, 2017

Suggested by Smith the principle of “shared values and norms” in spheres of economy as an incentive for cooperation is not applied towards Azerbaijan.⁴⁴ Thereby, not all incentives of the EU are attractive for Azerbaijan.

The financial aid to non-state actors as a policy of conditionality is actively used by the EU. For example, to monitor the progress of the EaP implementation the EU introduced the Roadmap that applies the “more for more” policy. Through financial aids and assistant programs the Roadmap allocated € 130 mln for 2012-2013 in addition to €1.9 mln in 2010-2013 years.⁴⁵ The cooperation in political, economic, and spheres that provide the mobility of citizens in a secured environment were prioritized. Thus, only for 2011-2013 the EU allocated new three years aid plan for Azerbaijan with a budget of €122 million for the National Indicative Programmes (NIP).⁴⁶ That is additional to a specific finance under the EaP that is € 19.2 for Comprehensive Institution Building (CIB) programs.⁴⁷ The policy of the Roadmap states that the more “progress [countries make] towards democratic reforms the more support [they] will receive from the EU”.⁴⁸ Thus, the progress of “more for more” is measured by the extent to which non-state actors comply with the EU conditionality and apply this policy towards domestic reforms. The approach implies more specialized policy towards Azerbaijan based on the demonstrated will to make reforms. For Vachudova, the positive conditionality that offers more through financial assistance programs requires more compliance with the EU “ready model” policy. The EU does not offer the extra support to states that fail to comply with the EU conditions. But, further analysis of priority orders of the EU –Azerbaijan cooperation shows the opposite that explains the shift in EU conditionality.

⁴⁴ Smith K., “The Outsiders”.

⁴⁵ Joint Communication to the EP. Roadmap 2013

⁴⁶ Ibid, 5

⁴⁶ European Neighbourhood and Partnership Instrument Azerbaijan. National Indicative Programme 2011-2013

⁴⁷ The European Union and Azerbaijan, EU Delegation to Azerbaijan, 2010, eng_final.jpg" http://eeas.europa.eu/archives/delegations/azerbaijan/documents/cover_eng_final.jpg

⁴⁸ Joint Communication to the EP. Roadmap 2013, ice, May 2017.

Analyzing the abovementioned order of priority fields of cooperation in the framework of the EaP explains the shift in conditionality policy of the EU towards Azerbaijan. It is clear from the order that for the country the EU's contribution to the solution of the Nagorno-Karabakh conflict is in a particular importance. The OSCE Minsk Group that is an international body created to encourage resolution over Nagorno-Karabakh shows slow progress in negotiations. The lack of the progress influences on the EU's image in the country as the EU supports the Minsk Group. Such EU policy reflects Azerbaijan's reluctance to progress in the remaining fields proposed by the EU: strengthening democracy, human rights, civil society and the rule of law. These fundamental principles of the EU cooperation are particularly emphasized as the EaP priority fields, and indeed, serve as an "entrance gate" for the EU partnership with countries. The EU report such as the ENP NIP for 2007-2013 mentions the low level of implementation of the first group of objectives by Azerbaijan.⁴⁹ The next, second ENP overview report of 2011-2013 also underscores the little progress in enhancing the first group of objectives identified by the EU-Azerbaijan cooperation in the EaP. According to the reports, Azerbaijan is slow or unwilling to launch the reforms mentioned in the first priority fields. However, the EU's hesitance to actively engage in the solution of the conflict and co-chair the Minsk Groups of the OSCE explains Azerbaijan's reluctance to make reforms in the field proposed by the EU.

The situation with the second group of objectives much progressive in comparison with the first group. The fields of cooperation have special importance for both the EU and Azerbaijan. As both sides were interested in enhancing trade relations and energy security areas the last report of 2011-2013⁵⁰ states that country substantially progressed in the spheres of energy reforms and energy diversification. By that,

⁴⁹ European Neighbourhood and Partnership Instrument 2007-2013 Overview of Activities and Results, 2013_en_0.pdf" https://ec.europa.eu/europeaid/sites/devco/files/overview_of_enpi_results_2007-2

⁵⁰ European Neighbourhood and Partnership Instrument Azerbaijan. National Indicative Programme 2011-2013, 1-2013_en.pdf" <https://ec.europa.eu/europeaid/sites/devco/files/nip-azerbaijan-2011> EN and PI, NI., 2011-2013

the EU and Azerbaijan agreed to develop economic integration and economic diversification not prioritizing the cooperation in the first group of objectives.

In fact, Azerbaijan's importance for the EU as an energy supplier began much earlier, in 2006 by the Memorandum of Understanding (MoU). The memorandum explicitly emphasized the significance of Azerbaijan as an energy strategic partner for the EU. It clearly mentions Azerbaijan's "gradual economic integration with the EU" where "both [sides] could benefit".⁵¹ Thereby, memorandum increased Azerbaijan's importance for the EU that led to the mutual chain of actions: decrease the EU's dependence from Russians gas. The strengthening Azerbaijan-EU relations in energy cooperation increased Azerbaijan's bargaining power. Convergence in energy supply field decreased EU's conditionality policy towards Azerbaijan. The EU's failure to apply effective conditionality principles to exert Azerbaijan to meet requirements of the first priority area of the EaP explains the shift in the EU conditionality. The more European policy become dependent on Azerbaijan's energy supply the more its influence on domestic reforms in the country has diminished.

If to be more precisely, the interdependent cooperation in the energy security pushes limits on the EaP conditionality principle. For example, Europe offered little opposition to massive closure of NGOs, crackdown on civil society in Azerbaijan in 2014. The EU energy related interests demonstrates the core reasons of the EU conditionality shift towards Azerbaijan. Such "soft" policy and shifting conditionality calls into question the EU principles in the framework of the Eastern Partnership.

Furthermore, shift in conditionality leads to the impotence of the EU to influence on Azerbaijan to exert reforms. Such shifting policy also demonstrates a weak external governance model of the EU.

⁵¹ Memorandum of Understanding on a Strategic partnership between the European Union and the republic of Azerbaijan in the field of Energy. HYPERLINK "http://www.europarl.europa.eu/meetdocs/2009_2014/documents/dsca/dv/dsca_20130321_14/dsca_20130321_14en.pdf" http://www.europarl.europa.eu/meetdocs/2009_2014/documents/dsca/dv/dsca_20130321_14/dsca_2013

The EU external governance model that is a top-down, rule-transfer policy applied in the framework of the EaP does not equally work towards Azerbaijan. The policy that includes the interdependence of both sides, in this situation, weakens the effectiveness of the EU conditionality in relations with Azerbaijan. Not all EU's remuneration and rewards systems are attractive for Azerbaijan.⁵² For this reason, Azerbaijan is not willing to conduct comprehensive, cost-benefit reforms in domestic policy.⁵³ The situation is unlikely to amend unless Azerbaijan's role as an energy supplier for the EU will change.

In addition, EU's passive role in the Nagorno-Karabakh also weakens the EU's conditionality mechanisms regarding country. EU's ambiguity in contribution of the negotiation process over the conflict weakens consistency of its policy regarding Azerbaijan. Such "double standards" policy also explains why the EU does not demand the intensive negotiations over the Azerbaijan's accession to the WTO. Despite that WTO accession and DCFTA negotiations are the priority policy of the EaP to integrate into the EU market. Azerbaijan's reluctance the WTO membership led to the interweaving of the EU Azerbaijan trade policy beyond the Eastern Partnership.

3.1.1. Trade as engine for EU Market Integration

EU-Azerbaijan bilateral trade relations are regulated by the Partnership and Cooperation Agreement (PCA) in force since 1999. PCA marked the beginning of the trade dialogues and investment between two sides. The trade negotiations launched in 2010 on the AA in the framework of the EaP are

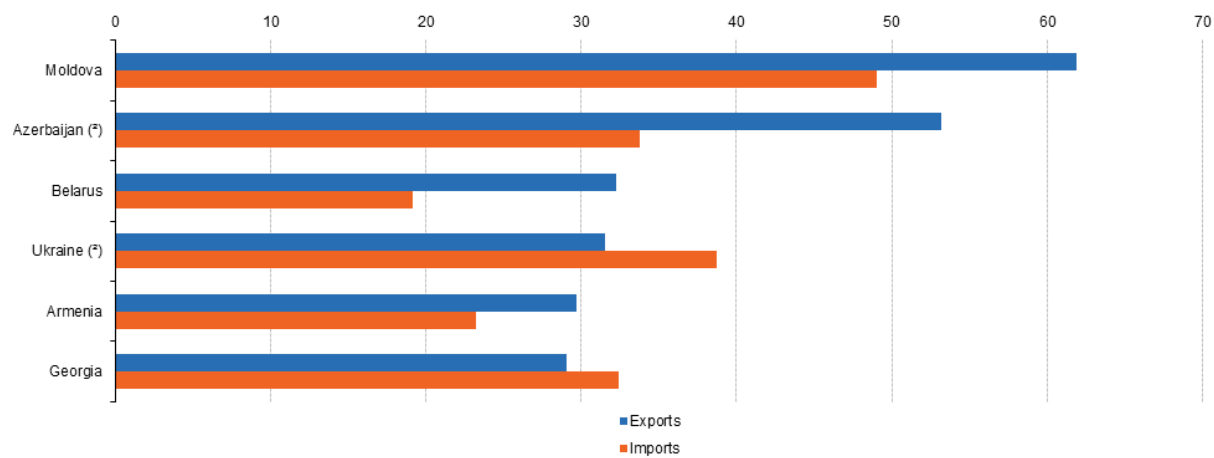
⁵² Interview with the specialist from the Institute of Economics of the Azerbaijan National Academy of Sciences (ANAS), Ilgar Mammadov, 08 May, 2017

⁵³ Ibid.

still ongoing. The AA would include the negotiations on DCFTA and Azerbaijan’s accession the WTO. The EaP as framework for bilateral and multilateral cooperation intensifies EU-Azerbaijan trade relations. The EaP allows Azerbaijan to enter the EU market. In this respect, the EaP brings the EU and Azerbaijan closer.

The EU market is important for Azerbaijan to diversify the export partners. Such as, the EU is Azerbaijan’s main trading partner accounting for around 42.4 % of total trade. The EU is Azerbaijan's biggest exporter with 48.3 % and importer with 27.7% respective share in total Azerbaijan's trade market.

Figure 1. EaP countries Trade turnover with the EU - 28, 2015 (%)



(*) As reported by ENP-East countries. Ranked on the share of exports destined for the EU-28.
(*) 2014.

Source: Eurostat

The EU surplus for goods trading with the EaP countries in 2015 is estimated in € 64.2 mln.⁵⁴ Each of the EaP countries, besides Azerbaijan, recorded trade deficit for goods valued in total between € 1.6 bln. and € 5.0 bln.⁵⁵ Among the EaP Caucasian countries Azerbaijan surplus for 2014 recorded € 9.5 mln.⁵⁶ Azerbaijan shares the largest percent of export and import with the EU among South Caucasian region. The minerals make 98 % of products imported by the EU. In 2015 Azerbaijan exported \$16.9 billion which made the country the 70th largest exporter in the world.⁵⁷ This is in addition to the fact that Azerbaijan does not join the WTO and is not negotiating over the DCFTA agreement. The country enters into contract with the EU countries outside the Eastern Partnership. The EU market widens Azerbaijan's opportunity to access the world trading. The trade level of Azerbaijan with the EU- 28 is much higher that with Russian Federation. The main exported product of Azerbaijan into the EU countries is minerals. In particular, in 2016 the crude oil made 98 % of minerals exported to the EU.⁵⁸ The other local goods are not good enough to meet the high standards of the EU market.

The strategic geopolitical location and possession of the massive hydrocarbon recourses makes Azerbaijan outstanding in expectations regarding the EU. Azerbaijan is the only EaP country which is initiated the SGC fossil fuel pipeline project that is one of the largest in the world. Being located on the crossroads of the two major international transportation corridors – from North to South and from East to West and thus, playing a strategic role in the North –South Corridor the pipeline is linking Azerbaijan's

54 Source Eurostat. EC, HYPERLINK "http://ec.europa.eu/eurostat/statistics-explained/index.php/European_Neighbourhood_Policy_-_East_-_international_trade_in_goods_statistics" http://ec.europa.eu/eurostat/statistics-explained/index.php/European_Neighbourhood_Policy_-_East_-_international_trade_in_goods_statistics

54 Ibid.

55 Ibid.

56 Ibid

57 European Neighbourhood and Partnership Instrument Azerbaijan. National Indicative Programme 2011-2013, 1-2013_en.pdf" <https://ec.europa.eu/europeaid/sites/devco/files/nip-azerbaijan-2011> EN and PI, NI., 2011-2013

58 EC, EU Trade in Goods with Azerbaijan, last accessed 13 June, 2017, HYPERLINK http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf

gas fields to the networks of Europe. The pipeline projects privileges Azerbaijan over other EaP members. The privilege unquestionably influences on the trade sectors of Azerbaijan. Such as, for instance, Azerbaijan's trade cooperation with the EU and enter into the EU market are conducted beyond the WTO accession and DCFTA negotiations. Although the last two factors aim to simplify the exchange of goods and fluid trade between the EU and non-state actors. For the EaP countries, indeed, it is an opportunity to move close to the EU integration. But, "for now, this is in the countries' agenda".⁵⁹

Azerbaijan's incentives to integrate into the EU market related primarily to the diversification of economy section. Simultaneously, the EU also significantly benefits from the cooperation in the energy sector, and thus, which refutes the argument of the conditionality principle.

This refutement of the conditionality principle highlights the one key factor, that in contrast to the common assumption opinions the relationship between AZ and EU is based on rational choices via a mutually beneficial agreement; which is highlighted in how AZ and EU have a mutually beneficial relationship in the energy sector. For Azerbaijan, the EaP as an institution provides a platform for cooperation in energy security and trade policy aid the country to enter in one of the largest markets in the world – the EU. The economic cooperation with the EU countries deepens Azerbaijan's integration into the EU trading market.

According to the rational choice theory, countries as rational actors choose the institutions mainly for the purpose of maximizing their utility. A similar approach justifies Azerbaijan's preference to cooperate within the EaP. The EaP as an institution facilitates Azerbaijan's partnership with the EU in energy sector where both sides agreed to deepen cooperation. To put it simply, for Azerbaijan the EaP as an institution provides an opportunity for bargaining both economic and trade sectors even in the absence

⁵⁹ Interview with Rasim Musabekov. Baku

of the WTO membership. As an institution for cooperation where both benefit, the EaP reduces the uncertainty of outcomes in cooperation by binding with legal agreements. Thus, the EaP as an institution for partnership allows to gain more exchange. In its turn, Azerbaijan as a utility maximizer sets its preference within the EaP based on the degree of utility that the EaP provides.

The EaP as an institution influences on actors' behavior by imposing certain "rules of the game". The EU utilizes all possible instruments of the EaP to exert on the behavior of non-state actors. The conditionality of the EaP is used by the EU as an instrument to incentivize through "rewards" and "punish" through sanctions.

It is unusual that conditionality principle is not equally applied to all six member states. Such as, the hydrocarbon possession and large exports of the crude oil make Azerbaijan different from the rest five members among the eastern partners.⁶⁰ Based on this factor, the country's choices and preferences do not absolutely comply with the EU's "ready models", the rule transfer principle for Azerbaijan.

3.2. How Rational Institutionalism explains Azerbaijan's preference of the EaP over the Russians' Custom Union

EU's historical enlargement entailed new ideas on the "strategic partnership". Russia's first attempt to create a "common space" to unite the former Soviet countries dates in 1991 by the establishment of Commonwealth Independent States (CUS). The conception consisted of ten former Soviet Republics but Georgia withdrawn membership in 2008.⁶¹ Since inception the organization provides a forum for

⁶⁰ Interview with the expert at the European Affairs Expertise, Pelle Christy Geertse, 10th of May

⁶¹ Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan

discussing issues related trade, finance and security sectors among nine member states. However, Russia was not successful in uniting the Post-Soviet countries under the one umbrella. The organization has more a symbolic character that unites countries of the same region. Azerbaijan is a member since 1991.

To promote further economic cooperation of Post-Soviet countries with integrated single market in 2010 Russia created the Eurasian Custom Union (ECU) with four member states.⁶² The Russian's ECU fully fledged into the Eurasian Economic Union (EEU) in 2015. The CU aims to establish the community with a single Eurasian market to unite all the Eurasian countries. The Custom Union is a Russian attempt to attract new members in addition to CIS.

The Russian's Eurasian Economic Union in most aspects have many similarities with the European Union. Both EEU and EU have custom unions, provide free trade area and single market. Both Unions established organizations to regulate trade and customs (WTO and CU) in order to ensure the access to the largest single market. Thus, for member states the Unions provide a firm institutional framework that warrants and harmonizes economic and trade cooperation.

However, there are significant differences. The EU unites small sized countries with different nationality which prevents the dominance of one country over others. Whereas the CU is less balanced in the composition. The superiority of Russia both in territorial and population perspectives allows country to dominate over the customs union overwhelmingly. Furthermore, the EU attracts countries by membership prospective or accession programs. The financial aid to non-state actors through different programs is one more lucrative policy of the EU while CU is "limited in finance and provides small subsidies" for members.⁶³ Thus, Russian's dominance in the block fears country to fall into the country's

62 Armenia, Belarus, Kazakhstan, Kirgizstan including Russia

63 Interview with Ilgar M. Gurbanov. Baku

hegemony and control. Such as, only four out of nine CIS countries are the members of the CU. Azerbaijan, for instance, did not become the part of the CU and “the membership issue of the EEU is not on the countries’ agenda”.⁶⁴

Having common boundaries with Russia, at first glance CU might appear to be a better choice for Azerbaijan. The Union provides a unique platform for members to cooperate in many sectors and unites Post-Soviet countries under a single umbrella. Such platform would give Azerbaijan an access to penetrate more into one of the largest market that is a Russian territory and neighboring countries. In addition, Azerbaijan’s delay to the WTO membership would be another reason to cooperate with the EC.

However, seemingly attractive at first glance Azerbaijan’s largest economic and trade partner for today is not Russia. The EU remains the largest partner not only in energy security and trading sectors but also the largest investor for Azerbaijan’s economy. The CU membership would undermine Azerbaijan’s independent foreign policy. That is considered to be impossible since the country gained independence from the Soviet past. One more factor counting against Azerbaijan’s join the CU would be the Russian’s dominant role in the Nagorno-Karabakh conflict. It is clear that Russia holds the key to the conflict and Moscow’s ability to influence on the conflict situation poses the power over Azerbaijan. Unresolved for years the status quo allows Russia to manipulate the situation to its own advantage.

Cooperation in the framework of the Russian’s EC or the EU’s EaP draws the standard assumption of the rational institutionalism approach. According to the theory actors engage in institutions to maximize the cost benefit calculation. In this case, Azerbaijan as an actor that expects to maximize the utility from the cooperation chooses the institutional framework that provides maximum profitable for its fixed preferences. Such as in trade sector, the EU makes 98 % of Azerbaijan’s export goods. The EU is

⁶⁴ Interview with Hikmat Hajiyeu.

Azerbaijan's largest partner not only in trading but also in economy sector. The EU-Azerbaijan trading relations cooperate out of the WTO membership. This gives the country access to the Europe market without binding to the specific organization.

The approach of the rational choice of institutionalism is the policy of outcomes. For Azerbaijan the cooperation in the framework of whether the Eastern Partnership or Eurasian Union depends on the outcomes of preferred policy. While both institutes provide an attractive platform for cooperation, for Azerbaijan the accession to the Custom Union would be the return to the Russian's auspices. That would undermine the balanced policy that is now a preferred strategic for Azerbaijan. Despite the conditionality principles of the EU's this policy seems more satisfying for fixed preferences of Azerbaijan. The EU's conditionality gives Azerbaijan bargain opportunity that lead to the preferred outcome. While partnership with the Eurasian Union will lead the country back to the Russian context, to the Soviet past.

Considering the Azerbaijan's foreign policy preferences, it becomes clear what the motivates of the EaP cooperation are. The choice of the EaP as an institution explains the incentives behind cooperation for Azerbaijan. As rational institutionalism explains, if chosen the EEU, then the cost of cooperating could be far greater than the benefits. In this respect, cooperation with the EaP helps to retain the strategy of balanced policy. Thus, considering the consequences of the fixed policy of preferences explains Azerbaijan's choice and ambitions for cooperation with the EaP.

3.3. The Settlement of the Nagorno-Karabakh Conflict as a Priority Objective for the Eastern Partnership Cooperation

Nagorno-Karabakh (NK/NKR) is a historical region of Azerbaijan, claimed as part of its “territorial integrity”^[65] and internationally recognized as *de jure* part of the Republic of Azerbaijan.^[66] But *de facto* the territory is governed independently as the Nagorno-Karabakh Republic.

The EU’s engagement with the conflict began with the Eastern enlargement towards Caucasian countries. First the ENP and then the EaP prioritized negotiating over the conflict as a priority field for cooperation. Following this, the EU involved into the conflict settlement process. The NKR settlement is a backbone of the EaP. The unresolved conflict also challenges the functioning of the EaP as the conflict poses threats to the regional cooperation of the Caucasian countries that “Armenia, through military aggression and foreign occupation [invaded] the large territory ofAzerbaijan”.⁶⁷ However, the EU has never stated this publicly. This is because the EU tries to maintain a neutral approach over the NKR. On the one hand the EU recognizes “the territorial integrity”⁶⁸ of Azerbaijan but from the other hand the “self-determination of peoples”⁶⁹ is recognized as a countervailing factor in this case. Namely, the self-determination principle of ethnic majorities in Nagorno- Karabakh is a reason of territorial conflict that

⁶⁵ OSCE, Statement of the Co-Chairs of the OSCE Minsk Group 17 March, 2008 HYPERLINK "http://www.osce.org/mg/49564" <http://www.osce.org/mg/49564>

⁶⁶ UN Security Council resolutions on the Nagorno-Karabakh conflict, 1993; No 822, 853, 874 and 884

⁶⁷ Statement of the Delegation of the Republic of Azerbaijan with regard to the written statement of the delegation of the Republic of Armenia, 8 December 2015 HYPERLINK "https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/cop21cmp11_hls_speech_azerbaijan_in_reply_to_armenia.pdf" https://unfccc.int/files/meetings/paris_nov_2015/application/pdf/cop21cmp11_hls_speech_azerbaijan_in_reply_to_armenia.pdf

⁶⁸ OSCE Minsk Group statement

⁶⁹ EU/Armenia Action Plan, 2006, 9 HYPERLINK "https://eeas.europa.eu/sites/eeas/files/armenia_enp_ap_final_en.pdf" https://eeas.europa.eu/sites/eeas/files/armenia_enp_ap_armenia.pdf

took place in the late 1980s. For Azerbaijan, such ambiguity means the admissibility of secession fact that is supported by the EU in the Armenian Action Plan.

While the EU supports the settlement based on a mutual compromise which upholds principles of both territorial integrity and self-determination, Azerbaijan has a different set of normative expectations. For Azerbaijan, territorial integrity is non-negotiable and cannot be traded against other values. Azerbaijan's perspective demands that the EU unequivocally and consistently support of the territorial integrity of Azerbaijan with regard to the region of Nagorno-Karabakh. Azerbaijan sees this as the implication of the EU's commitments, as expressed (for example) in a speech by EU Commissioner Benita Ferrero-Waldner, to support the sovereignty and territorial integrity of "[EU] partners like Georgia, Moldova, and Ukraine"⁷⁰. According to Azerbaijani politician Rasim Musabekov, however, the EU has never supported Azerbaijan's territorial integrity to the same extent that it has supported the integrity of Georgia and Ukraine.

The refusal of the EU to support the territorial integrity of Azerbaijan to the extent that the Azerbaijani government would wish shows the ambiguity in policy. The EU's reluctance to play a bigger role in the settlement of the NK conflict explains some level of distress in EU-Azerbaijan relations. The perceived "double standard" in this policy loosens the EU's ability to impose conditionality on Azerbaijan, since it is perceived as a less credible negotiator. For this reason, the conditionality policy of the EU has a little chance of being welcomed by Azerbaijan.

Nevertheless, one possible solution would be the EU's negative conditionality that will yield the positive change in the dynamic of the NK. The infliction of sanctions by the EU on Armenia for violation

⁷⁰ European Commission, Press Release Database, 2008, accessed 15 June, 2017 HYPERLINK "http://europa.eu/rapid/press-release_SPEECH-08-401_fr.htm?locale=en" http://europa.eu/rapid/press-release_SPEECH-08-401_fr.htm?locale=en

of its international obligations would also change the interdependent EU-Azerbaijan relationship. The shift in policy will give the EU more ability to exert influence on Azerbaijan to comply with EU norms on democracy and human rights as well as trade-related standards. A targeted sanction policy as a negative conditionality would also be workable here. For example, ceasing financial transaction or freezing of funds would be concrete EU policies which would raise its credibility in Azerbaijan. The EU's "carrot and stick" or "punishments" and "rewards" conditionality is a good way to achieve the desired outcome. This is consistent with Vachudova's offers who suggests the use of "passive leverage" to exert influence in favor of compliance with the EU's "norms and values".⁷¹ Such leverage is uniquely effective because will influence domestic reforms to meet the membership. The conditionality principle includes the political and economic benefits that members get from institution. The exclusion of membership is the ultimate step to unpack the influence on non-state actors. However, the EU fails to apply the negative conditionality and "punishment" through sanctions.

To achieve tangible results in the dynamic of the NK the EU should propose clearly defined principles on what are "punishments" and "rewards" or "more for more" and "less for less" policy. This, first of all, will reduce the ambiguity and the perceived "double standards" of the EU's policy in relation to Armenian-Azerbaijan Nagorno-Karabakh conflict. Furthermore, such policy will increase EU's leverages over conditionality towards non-state actors.

To conclude, it is clear that nevertheless the conflict settlement is in the first priority objective of the EaP, but Azerbaijan's expectations in respect of the EU's active role on the conflict are not met. Indeed, the EU's involvement in the conflict still remains virtually nil. Such approach shows ambiguity

⁷¹ Vachudova A., "Europe Undivided" 2005

and leads to non-compliance with the conditionality imposed by the EU. Therefore, the current EU policy regarding Nagorno-Karabakh cannot contribute to a resolution.

Even though UN resolutions which were adopted more than 20 years agreed on territorial integrity of Azerbaijan, no significant change has occurred since. First the ENP and then EaP prioritized the settlement of the conflict. At the same time, the EaP has similarly failed to advance negotiations regarding Nagorno-Karabakh. Azerbaijan's expectations of the EU include that it should more actively engage in the resolution of the conflict in the framework of the EaP; this expectation, however, has not been met. For these reason, it is difficult to explain Azerbaijani partnership in the rational institutionalism theory.

Conclusion and Policy Recommendations

The purpose of the thesis was to identify the incentives of Azerbaijan for the Eastern Partnership cooperation given the impossibility of the EU membership perspective and rigorous conditionality principle of the EU partnership. Using the theory of Rational Choice Institutionalism in line with External Governance model the thesis focused on three hypotheses that explain the choice of the EaP as an institution for Azerbaijan-EU cooperation. I drew my hypotheses based on the factors influencing the achievement of Azerbaijan's interests. The literature review outlined the conditionality policy used by the EU as an instrument to pressure on Azerbaijan to conduct domestic reforms on democracy, human rights and civil society areas that are the priority objectives for cooperation. It then explained how the conditionality policy is changing as a result of the benefits that the EU gets from Azerbaijan in energy security. This particular angle has revealed much about how the absolute conditionality principle of the EU and the bargaining interest of Azerbaijan are adapting in the face of increasing interdependence.

However, the most prominent limitation of this section of the thesis was the relatively small volume of academic literature on Azerbaijan. Moreover, many of the few available academic articles were only in Azeri language, which makes research considerably more difficult for non-Azeri scholars. In this respect, my research can make a meaningful contribution first, to the topic itself and second, to limit the language barrier for international scholars.

The thesis applied qualitative research design and deductive reasoning. The semi-structural interviews with the officials from Baku and Brussels as well as analysis of the EU's reports and the available documents of the European Delegation in Azerbaijan confirmed my first hypothesis.

Azerbaijan's choice to cooperate with the EU derived from its interest in expanding the energy sector and increasing the flow of direct investment it receives from abroad. For the EU this cooperation is an opportunity to increase its number of energy suppliers and so reduce dependence upon any other state power. The in-depth interviews disconfirmed the second hypothesis which claims that cooperation in the EaP helps Azerbaijan to maintain an independent policy from the Russian led EEU. The third hypothesis, which argues that Azerbaijan's incentives for cooperation is its expectation that the EU will influence the settlement of the Karabakh conflict, was also disconfirmed.

In order to promote democratic values in the country the EU should adopt a raft of measures. It should aim to strengthen interactions between the government and civil society through the Council of Europe and/or European Commission. Additionally, it should continue and expand the good governance policy through financing not only NGOs but also supporting reforms in public sectors as, for instance, combating corruption and providing training for public servants.

Moreover, Azerbaijan-EU involvement in the other priority sectors that are set out in the Action Plans should be strengthened. Binding Azerbaijan through legislative documents will ensure that cooperation. Moreover, the EU also should review its own policy, and actively involve itself with the settlement of the NK that is the first priority field for Azerbaijan. The involvement, in turn will make Azerbaijan more willing to comply with the EU priority fields.

Appendix A

Interview questions

1. In your assessment, what was the key motivation behind Azerbaijan's decision to join the EaP?
2. What do you personally see as the main benefits for Azerbaijan from the policy framework of the EaP?
3. Azerbaijan had cooperation in the energy sector with the EU even before joining the EaP. So, Azerbaijan was interested in diversification of energy sector while the EU in ensuring its energy security. In this case, what kind of benefits and priorities does Azerbaijan seek to achieve through cooperation within the Eastern Partnership?
4. In your opinion, can the flow of foreign capital and investment policies to the country be the reason behind the cooperation?
5. From your perspective, can the Russian Economic Custom Union be an alternative to the EaP?
 - While Azerbaijan is not joined to Russia's Economic Custom Union can we then say that the government is more interested in cooperate with the European Union in Eastern Partnership?
 - If yes, how much of a priority is the EaP relative to other unions and associations?
6. To what extent, in your point of view, is the concept of balanced foreign policy for the Azerbaijan Republic consistent with the EaP cooperation fields?
 - One of the conditions that countries have to meet is to conduct democratic reforms and protect human rights. Do you think that there is any pressure on Azerbaijan from international community regarding this particular field?

- We often read news in international sources about the grave violations of human rights in Azerbaijan. What do you personally believe explains this attention? Can we see this as an attempt to influence Azerbaijan's foreign or security policy, or should it be taken at face value?
- 7. From the beginning, in 2009 the Action Plan prioritized cooperation on the settlement of the Karabakh conflict. However, later the policy has shifted to energy supply and energy security sectors. What do you think about the reasons behind the policy change? Does it show that increasing exports of oil reduces the pressure on Azerbaijan to conduct democratic reforms?
- 8. Would you like to share something with me that I did not ask you?
- 9. Can you tell me something more about the EaP cooperation principle that I did not ask?
- 10. Do you have any questions for me?

Appendix B

Interviewees, 3rd -10th of May, 2017

Baku

1. EU Delegation in Azerbaijan. Political Section – Nina Maria Lindvall – 5th of May
2. The Ministry of Foreign Affairs. Spokesperson- Hikmat Hacıyev- 8th of May
3. Interview with the specialist from the Institute of Economics of the Azerbaijan National Academy of Sciences (ANAS) Ilgar Mammadov, 08 May, 2017
4. Analysis and Communication Center for Economic Reforms – Vusale Jafarova -10th of May
5. Politician, Professor of International Relations at the academy of Foreign Affairs under the President of Azerbaijan Republic - Rasim Musabekov – 10th of May

Brussels

Pelle Christy Geertsen – Expert at the European Affairs Expertise, Skype interview -10th of May

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