

Baku Dips Into Oil Fund to Douse Discontent

June 06, 2011



A Baku resident waving the Azeri flag after Ell/Nikki of Azerbaijan won the Eurovision Song Contest last month. **David Mdzinarishvili**

BAKU, Azerbaijan — Azeri President Ilham Aliyev is opening the tap from Azerbaijan's oil revenues, boosting salaries and building schools, aiming to ensure that bubbling discontent does not boil over into the kind of unrest that has swept the Arab world.

Sitting astride large oil and natural gas reserves that it pumps to Europe and Russia, Azerbaijan has refurbished its capital, Baku, attracted massive foreign investment, and funded its brightest to study at Harvard, Oxford and Cambridge.

But in a country with gaping disparities in wealth, small-scale protests for economic and democratic reforms sprang up in March and April, and nearly 100 people were arrested.

Threats of more unrest have forced Aliyev to increase spending to try to relieve pressure on a leadership that is facing accusations of human rights abuses and a frozen conflict with Armenian-backed rebels that has displaced nearly 1 million people.

"The government is trying now to decrease tensions by increasing salaries and making life a little bit better. They want to undercut support for the opposition," said commentator and former presidential adviser Vafa Guluzade.

"All this happened only after the revolutions in Egypt, Tunisia and Libya," Guluzade said, "so let's see what happens in Azerbaijan."

Oil prices have risen by a third since the beginning of the year, buoyed by unrest in North Africa and the Middle East that unseated the Egyptian and Tunisian leaders and threatened to topple others in the oil-producing region.

For the government of Azerbaijan, which pumps about a million barrels of oil a day, the price increase means more than \$4 billion in extra oil money for the state budget.

"Our state budget has grown and all expenditures will be fully oriented toward improving the social conditions of our people," said Deputy Communications Minister Elmir Velizadeh.

Oil major BP, which leads production at the country's largest oil fields, Azeri-Chirag-Guneshli, alone gives the Azeri government \$5 billion every year.

Azerbaijan's oil fund, which collects and invests oil and gas revenues, expects to grow to \$30 billion by the end of the year, said its Harvard-educated executive director, Shakhmar Movsumov.

This year transfers from the fund, which yields an average of 4 percent a year, accounted for 60 percent of the state budget, equivalent to roughly \$12 billion, he said.

Aliyev, who was steered into power in 2003 when his father and predecessor, Heidar Aliyev, died, has spread the wealth from his country's oil boom more generously than leaders of other oil-producing countries around the energy-rich Caspian Sea.

Azerbaijan's economic growth averaged more than 21 percent between 2003 and 2007, roughly in line with rising production at its offshore oil and gas deposits.

The government says it has cut unemployment to 6 percent and reduced the number of people living in poverty to 9 percent from 43 percent in 2003.

Even so, the rate of growth has hit Azerbaijan hard. Pervasive construction in Baku has already uprooted 20,000 people and fed popular discontent, building on anger over accusations of other human rights abuses.

Overlooking the Caspian Sea in the center of the city, the oil fund's skyscraper office building is fully visible from Dr. Ayda Aliyeva's living room. The south wall of her house has been torn down by excavators, still growling outside and ready to raze the rest of the building to put up a shopping center.

Next to the broad hole left by the demolition, Aliyeva, 49, has set up a small white plastic table with two chairs, where she sits and talks with neighbors, also living in the building.

"How do they have the right to do this? Where are my rights as a citizen of Azerbaijan?" said

Sevinch Veynalova, 43, a construction coordinator who lives in the same building.

"I stay awake all night just waiting for my house to get torn down and don't even get just compensation?" she said.

Residents say they were offered 1,500 manat (\$1,875) per square meter, about a quarter of its market value, and had been promised apartments in outlying parts of the city.

Outside the apartment, lights from Baku's numerous other construction projects brighten the night sky.

Human rights workers accuse the government of abuses including police torture of detainees as well as vote rigging and the failure of the courts to carry out the rule of law.

"The situation with human rights is getting worse in every way possible," said Leyla Yunus, director of the Institute for Peace and Democracy. "Regarding torture, the court system, and now problems with property rights, which is a completely new kind of violation, it's worse than it was under the Soviet system."

The government denies that such abuses are systematic and says it is trying to boost democratization and awareness of human rights.

Critics say Azerbaijan's status as a major oil producer shields it from uncomfortable criticism from the West.

Azerbaijan, which borders Iran, Armenia and Russia's volatile North Caucasus, will carry out a joint military exercise with the United States later this year called "Regional Response." Azerbaijan is also an important transit country for NATO military gear from Afghanistan.

Some of Azerbaijan's domestic troubles were created in the chaos that followed the Soviet collapse.

Nearly 1 million refugees came to Baku in the early 1990s, fleeing a war between ethnic Armenian and Azeri forces over the mainly Armenian-populated enclave of Nagorno-Karabakh.

Almost two decades after a cease-fire, Muslim Azerbaijan is still seething over the loss of Nagorno-Karabakh to ethnic Armenian forces backed by Christian Armenia who also snatched vast tracts of Azeri territory outside the mountainous enclave.

Under the shadow of new construction projects looming in downtown Baku, Azeris say wages averaging 300 manat a month are too low to feed and clothe a family and send children to school.

"We live poorly, poorly!" said Aga Shikhlarov, adding that he just earns enough driving a taxi to feed himself.

"A third of the country, they live wonderfully, like human beings. For everyone else life is hard and painful," he said.

The wealth of Aliyev himself is hard to assess. His wife, Mehriban, hails from one of the country's richest and most powerful clans, according to leaked U.S. diplomatic cables, and her extensive art collection forms the basis of Baku's Museum of Modern Art.

Hoping to tap into popular discontent, opposition politicians plan more rallies in mid-June to demand reforms.

Opposition leader Isa Gambar, who heads the Musavat Party as well as the Social Platform movement made up of unions and business owners, said the government quashed earlier efforts by allowing protests only far out of the city center.

"Everyone knows that people are extremely unhappy with their situation and that if there were a real possibility for a demonstration you would immediately have tens of thousands of people joining," he said.

But the opposition itself, which many Azeris associate with a bygone era of political instability, is struggling to gain validity and prove it is not after only lucrative oil contracts that give the government billions.

Azeris, rights groups and analysts say corruption is one of the biggest problems facing the country, where huge construction and business projects come with big price tags often rewarding businessmen with connections at the top.

"The protests in Libya and Tunisia and Egypt — we saw them on television and we went out into the street as well," said one man who identified himself only as Mikhail. "We're fed up, too."

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