RESOURCE CURSE OR RESOURCE BLESSING: EFFECTIVE MANAGEMENT OF RESOURCE WEALTH IN DEMOCRATIZING COUNTRIES

Decision makers of resource-rich countries often do not have the incentive to concentrate on institutional development and sustainable redistribution of energy revenues. Outlining how Norway has developed immunity from resource course, the author explores the parameters of effective resource management for Azerbaijan. Azerbaijan has substantial energy wealth while poverty is still very high. There are signs of a brewing problem. The author also raises the question of whether standard prescriptions, when applied to specific countries with resources, can indeed convert resource wealth into a blessing.

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Is democracy, as a regime type, *the* precondition for building a healthy and viable commercial relationship between energy-producing states and energy-consuming states and non-state actors? While many Western energy-consuming states support democracy-building and promotion in democratizing resource-rich countries by financing civil society development, supporting political opposition, etc., greater emphasis is often placed on the construction and preservation of effective institutions and mechanisms that guarantee a healthy investment environment. Democracy, taken as a proxy for effective utilization of energy or resource wealth, does not carry the same weight in assessing effective energy resource-management as the specific indicators of democratic consolidation, i.e. rule of law, legitimacy acquired through free and participatory elections, strong and autonomous institutions, and good governance established through transparency and accountability.[1]

Effective management of energy resources in consolidated democracies like Norway indicates that certain measures or mechanisms guarantee a healthy investment environment for international actors. Perhaps a more strenuous list of prerequisites exist for democratizing resource-rich states since they are plagued with the so-called resource curse- a phenomenon defined in its simplest form by George Soros as:

> Countries that are rich in natural resources are often poor, because *exploiting* those *resources* has taken precedence over *good government***.** Competing oil and mining companies, backed by their governments are often willing to deal with anyone who can assure them of a concession. This has bred corrupt and repressive governments and armed conflict [emphasis added].[2]

Coining the term curse with resource wealth involves an element of generalization since ownership of natural resources *alone* does not cause underdevelopment, poor governance or state failure, and is not the *only* catalyst of armed conflict and state repression.[3] However, the literature on democratization and resource management in the developing world convincingly exhibits the direct correlation between resource wealth and factors undermining democracy and welfare/wellness. Democratizing of hybrid regimes

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[1] Juan J. Linz and Alfred Stepan's book, *Problems of Democratic Transition and Consolidation*, (Baltimore: Johns Hopkins University Press, 1996) outlines democratic consolidation process as "A democratic transition is complete when sufficient agreement has been reached about political procedures to produce an elected government, when a government comes to power that is the direct result of a free and popular vote, when this government *de facto* has the authority to generate new policies, and when the executive, legislative and judicial power generated by the new democracy does not have to share power with other bodies *de jure*" The authors add that a principle of nonviolence should be preserved by political actors in consolidated democracies and that the societies governed by democracy should internalize the regime type.

[2] George Soros, "Lifting the Resource Curse," *Project Syndicate*, http://www.project-syndicate.org/commentary/soros29 (2005).

[3] There is vast literature on state failure in the developing world seeking to address its different aspects. See, for example, Mark Hoffman and Ian Forbes (eds) *Political Theory, International Relations and the Ethics of Intervention*, (London: Macmillan, 1993); Marina Ottaway, Relief and Reconstruction: Rebuilding State Institutions in Collapsed States,' *Development and Change,* 33:5, 2002; and Frances Stewart and Valpy FitzGerald (eds.), *War and Underdevelopment*, Volumes 1 and 2.

possessing rich oil and natural gas reserves suffer from a variety of destabilizing effects of resource wealth. The ability to generate significant revenues from oil and gas production obviates the resource-rich countries' institutional development and renders such states incapable of undertaking effective redistribution of the profits accrued from energy. Oil and gas extraction industry is not capital intensive and rather relies on heavy and expensive equipment. There is thus little welfare creation, and no positive effects on employment and transfer of know-how and expertise from energy production in democratizing states. Moreover, since energy-rich states rely almost entirely on energy revenues, their economies are very vulnerable to downward price shocks. Markets for goods and services outside of the energy industry in resource-rich states fail to develop due to lack of economic incentives otherwise offered by markets and the states, and the international energy market's pressures on domestic currencies.[4]

Apart from the more general ills associated with resource wealth, specific energy-rich states suffer from political and social pains caused by mismanagement of their finite natural resources. Resource curse is cast more intensely on states that traditionally experience episodes of political turmoil as a result of power struggle between different political actors and social segments. The involvement of foreign investors as party to the political and economic scramble over energy earnings further complicates the political bargaining process. As certain actors are excluded from the decision-making and interest-mediation process, particularly with regard to distribution of energy revenues, the cycle of underdevelopment cannot be averted: "Since the local elites' position of social dominance is guaranteed by the support of its multinational ally, it has little incentive to institute reform to improve the conditions of the masses.[5]" Resource curse, a trigger of political ramble between social segments, afflicted African and Latin American energy-rich states most profusely. The socio-politically destabilizing effects of 'resource curse' have also been observed in the Commonwealth of Independent States, Russia, and Central Asian energy-rich states whose post-Soviet transition processes have produced imperfect democracies or hybrid regimes.

A list of how-to's for resource-rich, energy-producing states to lift the so-called resource curse has been offered by numerous domestic, regional and international schemes such as the *Advanced Energy Initiative* under President Bush, *EU Energy Initiative*, *Extractive Industries Transparency Initiative*, or the Wilson Center's *Global Energy Initiative*. Key indicators include strong and reliable institutions, a sustained legal framework protecting the interests of all stakeholders, active participation and representation of political, social and economic actors at the local and national level in the decision-making process, transparency and accountability of the actions of the government and the private enterprises in their respective fields within the energy sector, and the internationalization of energy policies in accordance with regulatory frameworks. Whether these standard indicators, when applied in specific countries afflicted with resource curse, can convert resource wealth into a blessing stands to test. The second part of the article features a

[4] J. Schultz, *Follow the Money: A guide to monitoring budgets and oil and gas revenues*, (New York: Open Society Institute. 2004).
[5] Oksan Bayulgen "Foreign Investment, Oil Curse, and Democratization: A Comparison of Azerbaijan and Russia" *Business and Politics* , Vol. 7, Issue 1(2005), p.1.

comparative analysis of Norway and Azerbaijan according to the above indicators of effective resource management.

An energy giant[6], Norway is championed as *the* resource-rich consolidated democracy with a nearly impeccable track-record of resource management. A harbinger of international initiatives to establish frameworks for managing energy production and trade, Norway practices what she preaches. She is for example the first developed country to enforce the measures of Extractive Industries Transparency Initiative (EITI). In sharp contrast to Norway, Azerbaijan, since her independence, "has faced many of the challenges that confronted other Commonwealth of Independent States (CIS) countries in transition: economic distortion and contraction, a deterioration in social services and infrastructure, and a rise in poverty".[7] Today, 51.4 percent of Azerbaijan's budget comes from oil revenues. Despite her magnanimous resource wealth, Azerbaijan fares poorly in alleviating poverty and tackling corruption. The most recent figures reveal that 44.7 percent of the country is living below the poverty line.[8] Perhaps the stark differences between Norway and Azerbaijan encouraged international policymakers to nominate Norway as a model for Azerbaijan to draw lessons on effective resource management and development.[9]

Reliable and Strong Democratic Institutions

The Norwegian model of democracy is based on centralized institutions and the principle of state-friendliness. In Norway, traditionally economic development followed a form of state corporatism where economic planning was designed and implemented by the state. Furthermore, Norwegian society and nonstate actors rely inadvertently on the state's welfare mechanisms and hence the redistribution of wealth (accrued predominantly by the energy revenues that the state generates) is in the hands of the state bureaucracy.[10] Typically, advocates of the Anglo Saxon model of liberal democracy and the mandates of the Washington Consensus would label the form of state dependency or state friendliness that excludes nonstate economic actors from economic planning and welfare distribution schemes as imperfect democracies. Norway is an exception to the rule because since 1935, Norwegian politics has been characterized by co-optation between conservative elites and labor. Since there were not sufficient private actors in the Norwegian market, "Norwegian capitalism emerged as a publicly produced capitalism, established on the initiative of politically dominant civil servants.[11]" The state crafted social redistribution

[6] According to recent data released in a *Country Analysis Brief* by the Energy Information Administration of the U.S Government, in 2005, Norway was the third-largest net oil exporter in the world, behind Saudi Arabia and Russia, and in 2004, Norway was the world's third largest net exporter of natural gas in 2004, behind Russia and Canada.
[7] "Azerbaijan-Country Brief", in http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT /AZERBAIJANEXTN/0menuPK:301923~pagePK:141132~piPK:141107~theSitePK:301914,00.html, (1 September 2006).
[8] Inqilab Ahmadov, (et.al) "Assistance in the Liberalization of Energy Tariffs and Its Impact on Poverty in Azerbaijan". *PFMC Reports*. in www.pfmc.az/cl2_fmc/files/2004/10/04/221107538_0.pdf., (2004) .
[9] J.C.K. Daly, "Is Azeri Oil Blessing or Curse?" *UPI* in http://www.upi.com /International_Security/Energy/Analysis/2007/08/24/analysis_is_azeri_oil_blessing_or_curse/9351, (24 August 2007).
[10] Per Selle and Oyvind Osterud, "The Eroding of Representative Democracy in Norway," *Journal of European Public Policy,* Vol.13, No.4, (2006),pp. 551-568.
[11] Selle and Osterud (2006), p.554.

schemes in accordance with the understanding of egalitarianism native to the Norwegian society and implemented these schemes via the centralized state institutions.

With the last decade of the twentieth century when the effects of globalization and of EU-wide economic trends on Norway became more acute, the Nordic European welfare model was brought under scrutiny to determine where it fails. Subsequently, OECD-wide state streamlining policies transformed the Norwegian state in the last decade but the oil and resource wealth delayed the transition from state-centric welfare model into a leaner state and a more privatized economy.[12] On the one hand, Norway maintained its strong and reliable mechanisms within her social welfare schemes and on the other hand, she adopted a new corporatist model where public enterprises converted into private enterprises and more public service output is reached with less input.

An archetype of strong and centralized institutions in Norway is Statoil, the 71 percent state-owned energy giant that controls 60 percent of Norway's gas and oil production. 44 percent of Norsk Hydro, Norway's aluminum and energy producer is also owned directly by the state. The Norwegian government not only is a shareholder in these two companies but also has partial ownership of the oil production via the State Direct Financial Interest (SDFI). The foreign-owned companies in Norway such as ConocoPhillips, Exxon Mobil and BP, are partners of Statoil.[13] Statoil's near monopoly status in Norwegian energy sector does not hinder investment potential because of the stability and institutional capacity that the domestic energy giant offers. A reliable partner with considerable experience on the ground, Statoil presents Norway's energy and other assets to existing and potential investors and simultaneously plays a parental role as guardian of the welfare of stakeholders.

Azerbaijan bears partial resemblance to Norway in the structure of its energy sector institutions. The State Oil Company of Azerbaijan (SOCAR) is the centerpiece of energy business in Azerbaijan. The oil revenues accumulated from old oil fields and new oil fields, operated under the Product Sharing Agreements (PSA), are channeled into the State Oil Fund (SOFAZ). Unlike Norway's National Oil Fund, SOFAZ has only begun in 2003 to make substantial transfers of revenue to the state budget- the latest transaction amounted to 650 million dollars out of 2200 million dollars worth of total oil revenues.[14] Although Azerbaijani institutions are centralized, the concentration of power and decision-making in the hands of a small number of actors in the Azerbaijan's institutional structures, unlike in Norway, does not create egalitarian welfare distribution mechanisms or the transfer of resource wealth through reliable channels to public services.

In the absence of a reliable institutional machinery to check and balance the powers of the President in Azerbaijan, the state fails in creating accountability. Azerbaijan's executive is designed to allow control mechanisms to commence around the President. The President is at the helm of the management and control of the energy sector through

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[12] Selle and Osterud (2006), p.554.

[13] "Energy Information Administration Country Analysis Briefs: Norway", http://www.eia.doe.gov/emeu/cabs/Norway/pdf.pdf, (1 August 2006).

[14] Inqilab, Ahmadov, (2004) "Oil Revenues and Macroeconomic Management," *EITI Azerbaijan*, in www.eiti-az.org/ts_gen/eng/eiti_news/intconference_InqilabAhmedov_e.pdf, (13 May 2004).

SOCAR. Since September 13, 1992, SOCAR exercises almost absolute control over the management of the Azeri oil industry. The State Oil Company has an impressive structure with numerous departments and offices, but in reality, only three men directed most of its affairs in the 1990s: SOCAR President Natik Aliev, SOCAR Vice President Ilham Aliev and Valekh Alekperov, director of SOCAR foreign relations department.[15] The concentration of power in the hands of a few people trumps institutional development, which has to be fostered in energy-rich democratizing states so as to attain greater transparency in energy business and flourish democratic representation.

Power, in the model associated with democratizing regimes plagued with resource curse, is not allocated directly through institutions but is locked in by wealthy and established loci of power. Acemoğlu and Robinson assert that elites or other political actors have the capacity to influence and evade democratic institutions so as to preserve the status quo power-sharing arrangements. The efforts of the international community and of reform-minded Azeris inside the government and business circles serve the goal of eradicating institutional invariance.[16] The pressing need for greater transparency, expressed in IMF, World Bank and UN reports as well as in the evaluations of many international organization's recommendations, was answered in part by strengthening the Azeri institutional make-up.

Civic Activism and Extensive Political Representation

Democracies have strong mediation mechanisms such as effective bureaucracies or political parties that can integrate the different set of actors into the economic and political system. In democratizing regimes where there are many veto players who can block or meddle with the investment policies of the government, the possibility of political instability threatens investors and hence hampers the healthy application of investment policies.[17] While Azerbaijan lacks effective mediating institutions that arbitrate interests of different groups to produce homogeneous policy outcomes, consolidated regimes like Norway have checks and balances that constrain actors involved in the energy sector.

The prevalence of the Norwegian state in her governance was counterbalanced by civic activism- a clear indicator of state-friendliness. Two striking characteristics of Norwegian politics, hierarchical subordination and organizational decentralization, have thus far worked in the advantage of the state. Ubiquitous political participation at the local level coupled with a latent sense of civic duty and of concern for the welfare of the society served as an unprecedented source of legitimacy. Furthermore, the relative ease in carrying out political and economic bargaining at the local and national level enabled a variety of non-state actors to engage actively in the framing of economic policies. Although vast literature exists negating the positive correlation between economic performance and corporatism/associationalism, Norway successfully followed Alfred

[15] Bayulgen (2006), p.15.
[16] L. Polishchuk, "Civil Society Coalitions in Policy Reform: An Economist's Outlook," *EITI Azerbaijan,* in www.eiti-az.org/ts_gen/eng/eiti_news/intconference_agenda.htm, (13 May 2004).
[17] Bayulgen (2006), p. 23.

Marshall's principle that "community was sometimes indispensable to superior economic performance.[18]"

Azerbaijan, on the other hand, is governed by a Presidential system wherein decision-making authority is vested almost entirely in the President and involvement of a wide array of political, economic and social actors in interest mediation is discouraged. Parliamentary or civilian oversight of the executive is nonexistent. The November 2005 elections that followed the Constitutional Amendments of 2002 were regarded by independent monitoring mechanisms such as the Office for Democratic Institutions OSCE as imperfect: The 6 November parliamentary elections did not meet a number of OSCE commitments and Council of Europe standards and commitments for democratic elections.[19] International monitoring reports particularly referred to the breach of civic and political rights to suppress opposition and ascertain election results favoring the ruling New Azerbaijan Party (YAP). Political bargaining in Azerbaijan is far from inclusive in representation of interest groups since the independence of the former Soviet Republic.

Sustained Legal and Administrative Framework

The first element of Norwegian energy regime was developed in late 1960s when the government passed a Royal Decree setting the rules for oil explorations in the Norwegian continental shelf. In the 1970s, Norway gradually extended its energy regime by developing a legal and administrative framework of investment in oil exploration and production. Its ability to offer a solid, immutable legal and administrative framework providing all investors equal fiscal and legal guarantees placed Norway in an unrivalled position among the energy-producing states.[20] Norway benefits extensively from borrowing from international regulations on energy extraction, production and trade. Finally, Norwegian legal and administrative framework for energy management is reproduced in national and international regulatory frameworks for its strengths as a flexible, organic and environmentally-friendly regime.

The upheaval of investment in Azerbaijan is due in part to her ability to implement the macroeconomic stabilization policies and construct a legal and administrative framework for investment in compliance with international legislation. Beginning in 1992, Azerbaijan's Parliament (Milli Majlis) drafted and ratified 120 laws regulating the energy market and setting the boundaries of privatization, fiscal and monetary reform, land reform, private entrepreneurship, etc. In 2001, both a new tax system and a new tariffs system were accepted. Raw materials, goods and equipment intended for production are free from import tariffs, and goods intended for investment purposes are free from

[18] M. Storper, "Society, Community, and Economic Development," *Studies in Comparative International Development*, in http://www.sppsr.ucla.edu/up/webfiles/storperpaper3.pdf, (2004).

[19] "Statement of Preliminary Findings and Conclusions," *International Election Observation Mission Parliamentary Election, Republic of Azerbaijan* – 6 November 2005, in http://www.osce.org/documents/odihr/2005/11/16889_en.pdf, (7 November 2005).

[20] Bayulgen (2006), p.23.

customs taxes and tariffs.[21] International legislation fortifies domestic framework, i.e. Azerbaijan is a co-signatory of the UN Framework Convention for Climate Change and in the words of UNDP Resident Representative Marco Borsotti, [Signing the Convention] indicates that "the Government is serious about the reform of the energy sector[22]" What remains to be done is completing the legal and institutional infrastructure for the energy market. What will determine the future investment climate in Azerbaijan is whether the laws that are passed by the Milli Majlis will be implemented in full and without exceptions.

Transparency, Accountability and Consumer Choices

Strong, democratic institutions, rule of law, and civic activism are central to converting resource wealth into a sustainable political and economic system. An indicator of effective resource management that carries greater weight however is transparency and accountability of economic transactions in resource-rich states. Since energy resources are finite and are depleting with considerable haste, information on energy transactions has to be standardized and open so as to guarantee that profiteering from energy revenues is penalized. "Energy interdependence and the growing scale of energy trade require continuing collaboration among both producers and consumers to ensure the security of the entire supply chain[23]."

Greater transparency and accountability is a prerequisite for maintaining the current energy security system. Some of the current global energy players flunk in the transparency and accountability of their energy businesses. Yergin observes that post-1973 energy politics in the world involves an interdependency game wherein the EU, as the largest consumer of Central Asian and CIS energy, and Russia as the largest supplier of energy to Europe are engaged in a high-stakes game. "Europe and Russia have an interestingly codependent relationship in energy not just a one-way dependency. Europe enables Russia to get its 'revenue fix'; Russia gives Europe its 'energy fix'.[24]" Azerbaijan and Norway stand at the two corners of the CIS-Russia-Europe energy axis and strive to respond to the impending calls for greater transparency and accountability in the energy business.

Norway is a resource rich country that pioneered the process of Extractive Industries Transparency Initiative (EITI). On September 27, 2007, Norway announced that it will adopt the principles of the EITI and thus became the first developed Western democracy to implement measures of transparency and accountability in the energy sector. Norway's Government Pension Fund has built its notorious investor confidence through commitment to transparency. The Fund is "a financial investor with non-strategic

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[21] "New Horizons and Policy Challenges for Foreign Direct Investments in the 21st Century," *OECD Global Forum on International Investment*, in http://www.oecd.org/dataoecd/24/17/2422494.pdf, (26-27 November 2001).
[22] "UNDP to Support the Ministry of Industry and Energy in Development of Renewable Energy in Azerbaijan," *United Nations Development Program*, in http://www.un-az.org/undp/news/2007/18-1-2007/18-1-2007_eng.php, (17 January 2007).
[23] Daniel Yergin, "Ensuring Energy Security," *Foreign Affairs,* Vol.85, Issue 2, (2006), p.69–82.
[24] Fiona Hill, "Beyond Co-dependency: European Reliance on Russian energy," *U.S.-Europe Analysis Series*, (Center on the United States and Europe, Brookings Institution, Washington DC, July 2005).

holdings [and one that has] an explicit aim to maximize financial returns, and clear lines of responsibility between political authorities and the operational management.[25]"

Azerbaijan, on the other hand, is one of the candidate countries in the EITI with a fairly poor performance in combating corruption: "In 2006, Transparency International, which monitors global corruption, placed Azerbaijan 137th on a list of 159 corrupt countries[26]" Endemic corruption breeds a number of conditions associated with resource curse such as unequal welfare distribution, erosion of business ethics, heightened sense of injustice among non-state or opposition actors. SOCAR, associated with claims of corruption and unethical business conduct, in a recent survey on attitudes of transparency and openness among companies producing oil in Azerbaijan, SOCAR responded more positively than Lukoil, Salyan Oil or Anshad Petrol to adopting measures of transparency. Yet, while agreeing to share revenue volumes, credit transfer to the State Oil Fund and other figures, SOCAR refused to disclose its shareholders and payable dividends publicly. SOCAR was the only company among domestic and foreign oil companies surveyed that did not include an anti-corruption clause in its regulations or its communication with investors and partners.[27]

International investors started to perceive Azerbaijan as an attractice spot for energy exploration and production when the Azerbaijani government began succesfully implementing Production Sharing Agreements. PSAs are internationally-recognized mechanisms encompassing standard stability and arbitration measures. PSAs allow host states to collect profits that accrue from the foreign investment in energy and allow investors to redeem their capital and operational contribution by taking a part of the crude production. The beginning of the PSA regime in Azerbaijan marked conditions that required foreign companies to invest 7.5 billion dollars to develop oil deposits in the Caspian Sea, the Baku-Tbilisi-Ceyhan pipeline and the Shah-Deniz pipeline, to transport oil and gas to Turkey through Georgia. When, in 1999, the State Oil Fund was founded, the set of functions that it was designed to serve addressed stabilization and enhancing transparency.[28]

Strong International Presence

One of the core challenges to the global order in 2020 will be energy security, predicts the Atlantic Council in their latest report "Mapping the Global Future". Referring to trends that predict a shift from a West-centric globalization to an Asia-centric one, the report acknowledges the snowballing effect of energy demands coming from Chinese and Indian economic growth. The Atlantic Council report is one of the many erudite studies

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[25] "Transparency and Trust in Norway's investments," *Norway: Society and Politics*, in http://www.norway.org/policy/news/pensionfund.htm, (10 October 2007).
[26] Ibid. Daly.
[27] G. Ibadoglu, "Results Of Survey In Oil Companies, Government Bodies, Non-Government Organizations, and Mass Media" in www.eiti-az.org/ts_gen/eng/eiti_news/intconference_QubadIbadoglu_e.pdf , (7 April 2006).
[28]"Azerbaijan: Country Brief 2007," *World Bank*, in http://web.worldbank.org/WBSITE/ EXTERNAL/COUNTRIES/ECAEXT/AZERBAIJANEXTN/0, menuPK: 3019 23~page PK: 141132~ piPK: 141107~ theSitePK: 301914, 00.html, (September 2006).

on the new dawn in resource-management across the globe. By 2030s, developed and developing countries alike will witness oil demand rise by 1.6 percent a year from 75 mb/d to 120 mb/d and the demand for natural gas will double. "Most of this projected 60 percent increase in demand will be met by OPEC, particularly producers in the Middle East.[29]" Simultaneously, the reserves of oil, gas, and other fossil fuels in some resource-rich countries of today will deplete, thereby robbing these states of their main source of revenue. The prospect of quick and irreversible resource depletion necessitates effective international cooperation in the energy sector.

Perhaps the most striking characteristic of Norway among other energy-producing states is its remarkable international presence. Par her newfound policy of 'politics of engagement', Norway played an active part in or triggered a number of international initiatives. A crown achievement, Norway met the United Nation's objective of providing foreign aid that matches 1 percent of GNP at a time when the UN's role and weight in international politics was shaken by the impertinent unilateralism of the United States. Her ability to take the helm in the peacemaking efforts in the Middle East during and after the Oslo Peace Process earned Norway a reputation unmatched by other energy-producing states. As an energy-producing democracy, Norway pioneered the surge in sustainable development and met the Brundtland Commission goals. As early as the 1980s, Dr. Brundtland, Norway's then Prime Minister, introduced the idea of an informal forum bringing together ministers of energy-producing and energy-consuming states. Immediately after the Gulf War, Brudtland's idea was ossified into the International Energy Forum. Today, Norway is a responsible resource-rich state and the standards she set in resource extraction, energy production, and use are accepted as standards of good governance in the energy business. She is thus delegated to assist democratizing states in the Caucasus, especially Azerbaijan, to instill greater transparency and accountability in the energy sector.

Azerbaijan is becoming an increasingly active energy supplier and the success of its future operations is conditional on the successful management of her international presence in the energy market. Azerbaijan has recently intensified its partnership with Turkey as SOCAR teamed with Turkas, Turkey's state oil company, to build a 4 billion dollar refinery in Ceyhan, a town Southern Turkey where the Baku-Ceylan-Tblisi pipeline that transfers the majority of Azerbaijan's oil ends. Moreover, "SOCAR unveiled its long-term plan to expand its activities in other former Soviet republics and European Union member states.[30]" SOCAR will have developed new facilities in the United Kingdom and Greece by 2008 and have acquired significant shares in refineries based in booming energy markets. The United States, last but not least, has giant stakes in Azeri energy; US energy giants, Amoco, Delta Oil, Exxon, Mobil, Mondoil, Pennzoil and Unocal operate in Azerbaijan.[31] Finally, to strengthen its bilateral and regional

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[29] A. Walther, "The International Energy Forum and Energy Security and Stability," in McPherson, H teal. (ends) *Emerging Threats to Energy Security and Stability*. (Dordrecht: Springer, 2005).

[30] Tareq, Ziyadov, T. "Azerbaijan State Oil Company to Build Refineries Abroad," *Eurasia Monitor* ,Vol. 4, Issue 143, in http://www.jamestown.org/publications_details.php?volume_id=420&issue_id=4187 &article_id=2372314, (24 July 2007).

[31] Ilham Aliev, "Azerbaijan: The New Source of Energy of the 21st Century," *Harvard University Caspian Studies Program*, (Cambridge, MA, February 1998).

partnerships in the energy sector, Azerbaijan strives to unleash its potential for a stronger and more exemplary international presence by embracing international principles such as better governance and greater transparency.

Conclusion

Burgeoning demand for fossil fuels, resource-depletion coupled with drastic climate change, and the subsequent rise in global energy prices introduced a new set of challenges for resource-rich countries in the developed and developing world. Norway paves the way into sustainable and eco-friendly energy production and consumption but the rigorous criteria she pledges to satisfy as part of a long-term goal of reverting climate change and the rigid investment framework already in place intimidate some potential foreign companies from investing in Norway. Her hesitation in opening the Barents Sea to exploration brings the Norwegian energy market deeper into saturation. Energy investments trail vibrant, blooming zones for exploration, production and sales. A country like Azerbaijan becomes a conduit into larger and relatively unmonitored energy revenues. With her potential for exploration and her investor-friendly approach rendering her able to bend the rules for a good deal, Azerbaijan attracts sizeable foreign investment in her energy market-despite her record of unscrupulous conduct. Being a hot-spot for energy is a double edged sword. Today, Azerbaijan faces a set of significant challenges in containing the destabilizing effects of the current oil boom and in promoting welfare, alleviating poverty and building non-oil industries.

Effective energy management entails democratic and strong institutions; participatory interest mediation and decision making processes, durable yet flexible legal and administrative framework to build investor trust, good governance through transparency and accountability, and a strong international presence. Fulfilling these norms strengthened by other domestic and international measures guarantees immunity from resource curse. Norwegian resistance to resource curse is a result of the compatibility of her policies with the indicators of effective resource management. Azerbaijan, on the other hand, ought to follow commendable policy advice and direction, already provided by many institutions including the World Bank and IMF, on tackling systemic inefficiencies and weaknesses. World Bank advice to Azerbaijan include: "Effectively managing the country's finite oil and gas reserves; Reversing declining living standards and tackling pervasive poverty; and strengthening governance.[32]" Azerbaijan also needs to create benchmarks of performance for domestic and foreign investors. Clearly communicating her commitment to credibility, transparency, and accountability to companies operating in Azerbaijan, she should bolster Azeri institutions that will monitor and enforce legal and administrative framework on energy. Finally, the Presidential system in Azerbaijan is not conducive to collective bargaining and greater representation. Therefore, reforming political processes to involve more domestic and global civil actors and distributing welfare through the national and global civil society networks will help Azerbaijan fight future energy challenges more skillfully.

[32]"Azerbaijan: Country Brief 2007" (September 2006).