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Stability and security in the South Caucasus

REPORT

submitted on behalf of the Political Committee
by Mr Masseret (France, Socialist Group)
and Mr Zacchera (Italy, Federated Group), Rapporteurs

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Stability and security in the South Caucasus

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*submitted on behalf of the Political Committee²
by Mr Masseret (France, Socialist Group)
and Mr Zacchera (Italy, Federated Group), Rapporteurs*

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¹ Adopted unanimously by the Committee 8 November 2004.

² *Members of the Committee:* Mr Agramunt (Chairman); MM Pangalos, Hancock (Vice-Chairmen); MM André, de Assis, Mrs Azevedo, Mrs Bolognesi, Mr Dees, Mrs Durrieu, MM Goerens, Goutry, Höfer, Hörster, Landrain, van der Linden, Lintner, Masseret, Meimarakis, Nazaré Pereira, Mrs Paoletti Tangheroni (Alternate: Zacchera), Mrs Papadimitriou (Alternate: Varvitsiotis), MM Piscitello, Provera, Puche Rodríguez, de Puig, Rizzi, Rochebloine, Roth, Mrs Serna Masiá, Mr van Thijn, Ms Tritz, Lord Tomlinson, MM Versnick, Vis, Wilkinson, N... , N...

Affiliate members: Mrs Dubovská, Mr Hegyi, Mrs Herczog, MM Kaminski, Kasal, Kobielski, Ms Maripuu, MM Nemeth, Partljic, Pelc, Sinkevicius, Strazdins, N..., N ..., N ...

Associate members: MM Akçam, Ates, Benediktsson, Çavusoglu, Livanelli, Marthinsen, Width.

Affiliate associate members: MM Dumitrescu, Roman, Timis, Tzekov, N...

N.B. *The names of those taking part in the vote are printed in italics.*

RECOMMENDATION 751¹
on stability and security in the South Caucasus

The Assembly,

- (i) Welcoming the present government of Georgia's intention to re-establish the rule of law, reduce corruption and tackle all the other problems which, since independence in 1991, have stood in the way of the establishment of viable state institutions and any realistic prospect of the country's integration into European structures;
- (ii) Aware of the importance for Georgia's long-term stability and security of the central government regaining control over Abkhazia and South Ossetia, but considering that the time may not yet be ripe for major change in those regions and that the restructuring of state institutions and the re-imposition of the rule of law in government-controlled territory must currently take priority;
- (iii) Considering that, meantime, the European Union, the Russian Federation and the United States, together with the OSCE and the United Nations Security Council, should make sustained efforts to prepare the ground for a future comprehensive and peaceful resolution of the conflicts in Abkhazia and Ossetia;
- (iv) Noting that Russia has not yet withdrawn its troops from its remaining military bases in Georgia, as it agreed to do in Istanbul in November 1999, and that it maintains a close relationship with both the Abkhazian and South Ossetian leaderships;
- (v) Considering therefore that Russia, given its insistence on central government authority at home, has a specific responsibility to act in such a way as to help consolidate stability and security in Georgia, thus avoiding the inconsistency of a policy that supports breakaway regions in neighbouring countries;
- (vi) Noting that the EU Special Representative for the South Caucasus might also play a role in promoting good-neighbourly relations between Georgia and Russia;
- (vii) Considering that the government of Armenia has not yet introduced a number of necessary major reforms to establish good governance, transparency and accountability, and the rule of law;
- (viii) Regretting that more than a year after the most recent parliamentary elections, the opposition is still refusing to participate in parliamentary proceedings, also that it has very little opportunity to make its views known to the wider public through the electronic media;
- (ix) Aware that the unsolved problem of Nagorno-Karabakh, and the fact that Armenia occupies some 20% of the territory of Azerbaijan, is dominating Armenia's internal policy and external relations, with largely negative consequences for much-needed social, economic and political development within the country;
- (x) Regretting that for a number of reasons, which include ethnic affinities and the events of history, bilateral relations between Armenia and Turkey appear to be deadlocked, with neither party capable of taking a first courageous step, while an open border between the two countries – conducive to economic development and rebuilding mutual trust – would be in the interest of the whole region;
- (xi) Considering that if Azerbaijan is to achieve stability and balanced economic development in the longer term, its political and socio-economic systems need to be made more transparent and accountable, the more especially in view of the current leadership's preference for the continuation of secular state structures within a Muslim territory;
- (xii) Recognising that Azerbaijan's oil fields are a very important factor in the country's economic development but regretting that only a relatively small section of the population is able to benefit from this new wealth and that the government is not doing enough towards modernising and developing

¹ Adopted by the Assembly on 30 November 2004 at the 7th sitting, on the basis of the amended draft recommendation.

further other sectors of the economy to make sure the country is less vulnerable to crises in the energy sector;

(*xiii*) Regretting that ten years after the ceasefire agreement the conflict over Nagorno-Karabakh remains unresolved, notwithstanding the many multilateral and bilateral efforts to negotiate a peaceful solution; aware too that this is the main obstacle standing in the way of vital regional cooperation;

(*xiv*) Considering that the allies of all sides in this unresolved conflict should make every effort to prevent the present stalemate leading to attempts to impose a solution by force and the consequent risk of an arms race that this implies;

(*xv*) Considering that the leadership of both Armenia and Azerbaijan will have to make determined efforts to prepare public opinion to accept a peaceful settlement with give and take on both sides, leading eventually to enhanced stability and economic development throughout the region;

(*xvi*) Aware that for the EU, the countries in the South Caucasus have a strategic importance in their own right, as a point of contact between different cultures, as transit countries for energy supplies and as the gateway to Central Asia;

(*xvii*) Welcoming, therefore, the European Council's decision to include them in the European Neighbourhood Policy, and the European Commission's specific action plans which should offer incentives for reform and contribute to regional cooperation;

(*xviii*) Considering it is premature to think of a stability pact for the Caucasus region while the conflicts in Abkhazia, South Ossetia and Nagorno-Karabakh remain unresolved;

(*xix*) Considering that in Armenia, Azerbaijan and Georgia:

- stability would be greatly enhanced by increasing the transparency, effectiveness and accountability of public institutions;
- the fight against corruption should be a priority, as visible success here would do more than anything else to stabilise society and attract foreign investors;
- much remains to be done in order to guarantee the freedom and independence both of the press and the electronic media;
- the establishment of a judicial system in accordance with European standards is essential for the development of civil society and a healthy economy;

(*xx*) Conscious of the fact that the Treaty on Conventional Forces in Europe is one of the cornerstones of European security and regretting that in both Abkhazia and Nagorno-Karabakh there are large amounts of treaty-limited equipment still unaccounted for;

(*xxi*) Welcoming the South Caucasus countries' involvement in NATO's Partnership for Peace programme, but regretting that the partners do not always live up to their partnership commitments;

(*xxii*) Hoping that Russia will come round to the view that it has an interest in stability in the South Caucasus and will be prepared to make a positive contribution to the solution of the conflicts that still exist in the different breakaway regions,

RECOMMENDS THAT THE COUNCIL URGE THE EUROPEAN UNION TO:

1. Keep a strong European multi-dimensional effort, using all the available instruments, at the forefront of its priorities for the region so as to increase the prosperity, stability and security of the South Caucasus as a whole;
2. Make every effort to prevent Armenia and Azerbaijan starting an arms race in an attempt to solve the conflict over Nagorno-Karabakh by force or through the threat of the use of force;
3. Develop an action plan that helps the peoples of both countries understand that relations between neighbours should be based on concepts of cooperation and the peaceful resolution of conflict;

4. Convince the governments of Armenia, Azerbaijan and Georgia that the immediate priorities for government action are the further development of efficient and transparent state institutions and of democratic governance, the establishment of the rule of law and the fight against corruption;
5. Continue to insist on the closure by the end of the present decade of the Medzamor nuclear electricity plant in Armenia, while making every effort to assist with the provision of an alternative energy plant for that country;
6. Encourage Turkey to work constructively for stability in the South Caucasus, *inter alia* through the progressive reopening of its borders with Armenia, whilst reminding Armenia that it must recognise the existing border with Turkey as delineated by the international Kars Agreement of 1921.

EXPLANATORY MEMORANDUM

*submitted by Mr Masseret (France, Socialist Group)
and Mr Zacchera, (Italy, Federated Group), Rapporteurs*

I. The countries of the South Caucasus

1. Geographically speaking, the South Caucasus encompasses Georgia, Armenia, and Azerbaijan, all three newly independent states with only a short history of political independence and constitutional rule. A brief overview will be given of each one separately but attention will also be drawn to points of interest that relate to all of them as a region.

2. The security dimension connected to the development of the region's energy potential should not be underestimated. The long-overdue resolution of the Nagorno-Karabakh conflict, instability in the South Caucasus, with secessionist movements in Abkhazia and South Ossetia, and in the North Caucasus, with the unresolved Chechen conflict, add significant risk-associated costs to investment plans for the region and are sources of instability that pose security risks for all players. Therefore, the ground for cooperative politics exists and, in that sense, European efforts to enhance regional cooperation could prove to be productive.

I. Armenia

3. Armenia, with a population of 3.8 million, is a landlocked country that borders on Georgia, Iran, Turkey and Azerbaijan. Since the war in Nagorno-Karabakh, Armenia's borders with Azerbaijan and Turkey have been closed. Armenia lacks the rich resources of Azerbaijan and the strategic geographic position of Georgia. The risk of its isolation from current regional developments exists, especially while the Nagorno-Karabakh dispute remains unresolved.

4. Since becoming independent in 1991, it has maintained a close relationship with Russia, as its strongest ally in the region. Nevertheless, Armenia's foreign policy has gradually been shifting in the direction of also seeking support from the West.

(a) Political situation

5. Democracy in Armenia is foundering. Since the first presidential elections in 1991 which it was considered reflected the will of the electorate, all subsequent presidential and legislative elections have been flawed. In particular, the presidential and parliamentary elections of 2003 dealt a blow to the consolidation of democracy in Armenia and downgraded Armenia's image in the West. International observers such as the Council of Europe's Parliamentary Assembly (PACE) and the OSCE (Organisation for Security and Cooperation in Europe) have acknowledged there was widespread electoral fraud. PACE expressed its "profound disappointment at the conduct of the elections ... which gave rise to serious irregularities and massive fraud"¹. The result of the presidential elections in March led to violent street protests, organised by the opposition, which were broken up by the police. Later the legislation on demonstrations was tightened in response to international condemnation and to demands from the Council of Europe and the European Union, and the Armenian government proceeded to abolish capital punishment.

6. Since the presidential and parliamentary elections in March and May 2003 respectively, the political situation in Armenia has remained polarised, with the opposition refusing to accept the results and boycotting parliamentary proceedings. President Kocharian, a former leader in the Nagorno-Karabakh region, has adopted a harder line than his predecessor Ter-Petrosian, both on the Karabakh conflict and Turkish-Armenian relations, especially the genocide issue. He has also chosen to form a close partnership with Russia and received Moscow's support. He is supported internally by the armed forces and Karabakh veterans, his closest political associate being the Defence Minister, Serzh Sargsian.

7. The government is now preparing a number of amendments to the Constitution which it is planning to submit to the Council of Europe's Venice Commission and to parliament.

¹ Resolution 1361.

8. Many parliamentarians agree that the Constitution needs to be amended to change the relationship between government and parliament, and strengthen the latter's power to achieve a more equal balance, but they fear that the government will try to reinforce the already predominant position of the President. Some of your Rapporteur's Armenian contacts also argued for changes in the electoral code. They would like to see the existing majority vote system replaced by proportional representation, which could be a way of eradicating the practice, still widespread, of buying votes with money or favours.

9. The parliament has many of the usual prerogatives but, in the present situation, with an opposition that holds only 26 seats out of a total of 131 and does not participate in parliamentary proceedings, its activity is largely formal, with little political debate. Most observers agree that the opposition lacks unity, does not have a programme offering a credible alternative to the government policy and has no charismatic leader.

10. More than a decade after independence, Armenia still has to introduce major reforms to establish good governance and the rule of law. There is no accountability in public life; the economy is controlled by clans which receive privileges in exchange for political loyalty. Corruption is systematic and pervasive at all levels. Also, under external pressure, a Council on Combating Corruption has been established but it is inefficient and lacking in transparency. The judiciary is independent only in theory and all too often judges have not yet adopted Western standards in defence of the rule of law.

11. Information is still tightly controlled and the media practice a high level of self-censorship as regards the activities of higher state authorities and state institutions. The press has little impact and there is no independent reporting in the electronic media. The political opposition complains it has very little opportunity to make its views known on television.

(b) Foreign relations

12. The country has made clear its interest in joining European institutions and has established friendly relations with France, particularly after the latter's recognition of the 1915 genocide. Armenia joined NATO's Partnership for Peace programme in April 1994, has liaison officers at SHAPE Headquarters in Mons, is actively participating in PfP sponsored activities, and now wishes to sign an Individual Partnership Action Plan. It has sent a platoon of peacekeepers to Kosovo as part of the Greek forces in KFOR and wants to participate in peacekeeping and reconstruction efforts in Iraq. Specifically, it envisages establishing a civilian mission there (medical aid, demining, transport). The first exercise in the framework of the PfP programme took place in Armenia in June 2003. During his visit to the region in June 2003, NATO Secretary-General George Robertson also expressed the organisation's interest in a more active relationship with Armenia. However, the Armenian leadership has so far denied there is any prospect of the country, which was unwilling to offer practical support to the American offensive in Iraq, becoming a NATO member.

13. Armenia describes its foreign and security policy as one of complementarity through which it is seeking to balance its links with both Russia and NATO. However, this even-handed approach seems doomed to failure as the country is far too dependent on Russia for its security and on both Russia and Iran for its energy supplies. Close relations with Iran could, moreover, be detrimental to the establishment of closer cooperation with the US. The country's pivotal relationship with Russia, its unresolved conflict with Azerbaijan, and its long-standing fear of Pan-Turkism remain the three predominant factors shaping Armenia's internal and external policies.

14. Armenia's strategic partnership with Russia rests on the 1997 Treaty on Friendship, Cooperation and Mutual Assistance which includes a mutual assistance provision in the event of a military attack on either party. In January 2003, this agreement was strengthened by a new bilateral military-technical agreement. During a visit to Armenia in November 2003, the Russian Defence Minister, Sergei Ivanov, pledged to re-arm and re-equip Russia's bases in Armenia, while also signing a military cooperation agreement for the transfer of new weapons.

15. From 1994-96, Russia transferred an estimated US\$ 1 billion in weapons to Armenia and, in 2002-2003, hardware from dismantled Russian bases in Georgia was moved there. There can be little

doubt that, for the foreseeable future, Russia will continue to provide most of the training and equipment of Armenia's armed forces.

16. Armenia is the only South Caucasus country which is a member of the CIS Collective Security Treaty Organisation. It hosts a Russian military base in Gyumri and Russia's military presence in the country consists of 3 500 troops. Russian troops actively participate in a joint border guard group, in particular at the border with Turkey and Iran. Armenia is increasingly Russia's foothold in the region since Georgia and Azerbaijan have been pursuing a more pronounced Western-oriented policy.

17. The United States is home to a sizeable Armenian community with financial and political power which makes an important contribution to the reconstruction of Armenia's economy. The United States has provided nearly US\$ 1.5 billion in economic, humanitarian and technical assistance to Armenia since the enactment of the Freedom Support Act in October 1992. After 11 September 2001, restrictions on military assistance to Armenia were lifted and, since then, direct military aid and military assistance programmes have expanded considerably, amounting to US\$ 10 million in 2002 and US\$ 18 million in 2003. The United States concentrates its assistance on professional military education, the establishment of peacekeeping capabilities, modernisation of military communications and the de-mining of frontier areas. The United States is in the process of building its biggest embassy in the South Caucasus in Yerevan.

18. Armenia is generally on good terms with Georgia. It has to direct almost all of its trade through that country and therefore depends on it economically. One fraught issue relates to communities of ethnic Armenians living on Georgian territory. Abkhazia has a significant Armenian minority on its territory which has sided with the Abkhazians in the armed conflict against the central government of Georgia. In Djavakhetia, a Georgian region on the border with Turkey and Armenia, over 90% of the population is ethnic Armenian. The Georgian government is not anxious to grant administrative autonomy to the region but this minority's cultural autonomy is being protected.

19. Georgia has some difficulty with Armenia's close relationship with Russia, while Armenia is suspicious of the Georgian-Turkish military cooperation which has taken place since 2001 and dislikes being isolated from large infrastructure projects as the Baku-Tbilisi-Ceyhan pipeline and increasing Georgian-Azeri cooperation.

20. The Armenian government has therefore always emphasised the importance of economic cooperation but is hesitant about regional security cooperation. On the other hand, Armenia's objective of revitalising the north-south transit axes linking Russia and Turkey and Iran meets with approval from Georgia which would benefit from such transit routes in any case.

21. In 2001, both countries amended an earlier bilateral treaty, concluded in 1996, whereby each was committed not to conclude alliances hostile to the other. Nevertheless, in the case of both, foreign relations remain somewhat unsettled, with Georgia trying to improve relations with Russia and Armenia conscious that it should not be wholly dependent on Russia. The two neighbours are well aware that each has an interest in good, even-handed relations with the other.

22. Iran is the other neighbouring state with which Armenia maintains friendly relations. As well as being an outlet for Armenian trade, Iran is a regional player with which Armenia shares regional dislikes. Armenia facilitates Iran's communication with Russia as part of a North-South axis and is also a partner in the energy sector.

23. In April 2004, both countries concluded an agreement on the construction of a 141 kilometre pipeline to transfer gas from Tabriz to Yerevan, work on which should start by the end of 2004. Through this agreement Armenia envisaged reducing its energy dependency on Russia.

24. Armenia's relations with Turkey are based on long standing mistrust, mainly due to the genocide of Armenians that took place at the time of the collapse of the Ottoman Empire. Since then Armenia has had little opportunity to pursue its relations with its neighbour. In the Soviet era, the two peoples were divided by the iron curtain and although Turkey recognised Armenia almost immediately after that country gained independence in 1991, it sided with Azerbaijan in the Nagorno-Karabakh conflict resulting in the suspension of diplomatic relations and the closure of its borders with Armenia. Armenia is losing out most from this trade blockade, along with some border regions of Anatolia, and

has therefore been pressing for a reopening of the border while at the same time seeing to minimise Turkish interference in the Nagorno-Karabakh conflict.

25. Turkey has repeatedly argued that relations with Armenia cannot be normalised so long as the latter requires Turkey to acknowledge that the Ottoman Empire committed genocide against Armenians in 1915. Turkey also wants Armenia to recognise the current Turkish-Armenian border and to make progress towards resolving the Nagorno-Karabakh conflict. On the other hand, Turkey needs to take care not to become a hostage to the policies of Azerbaijan, since the latter considers the closure of Turkey's border as a major lever for putting pressure on Armenia in the Nagorno-Karabakh conflict.

26. Turkey's condition that the Armenians drop their claim for the recognition of the 1915 genocide could prove to be the hardest issue on which to obtain a compromise since recognition of the genocide has been a cornerstone of Armenian foreign policy in recent years. This bitter question has become a matter of national pride on both sides and in Armenia's case, the main preoccupation of its expatriate communities (representing in total a greater number of people than the existing population of Armenia) which have significant lobbying power at home and abroad. The dire economic situation and increasing regional isolation is forcing Armenians to adopt a more pragmatic approach to the problem but this may not go as far as renunciation of their claims for recognition of the 1915 genocide. Your Rapporteur's contacts in Armenia maintained there was a willingness to restore diplomatic relations with Turkey without preliminary conditions and that there was ample room for improving relations with Turkey, but that the latter should acknowledge the genocide.

27. There are no signs of progress to resolve the Nagorno-Karabakh conflict. However, it might be possible for Turkey to negotiate the reopening of its Armenian border without a final resolution in place if such a move allowed it to establish its regional leadership and facilitate future progress on the Nagorno-Karabakh issue from that position.² Consequently, although Azerbaijan constitutes an obstacle to reopening the border, it no longer seems to be an insurmountable one. However, it should be noted that despite the intense diplomatic activity, no progress has been registered at the present time. The refusal of Armenia's President, Robert Kocharian, to take part in the NATO Istanbul Summit was a clear signal.

28. The reopening of the Turkish-Armenian border would greatly facilitate the use of transport routes from Turkey into the Caucasus and the Central Asian region, thus providing a direct link from the west into Central Asia. In particular, the resumption of rail services between Turkey and Armenia (connecting Kars with Gumri) would open up the region's extensive railway system, a legacy of the Soviet Union, and significantly bring down the cost of transport from the west to Central Asia, particularly if combined with reconnection with the rail systems of Armenia and Azerbaijan. It is estimated that opening up the borders of Armenia with Turkey and Azerbaijan would reduce transport costs by 30-50% yielding an overall benefit of over € 300 million³.

29. So far, the TRACECA provisions applying to transport between Turkey and Armenia and Azerbaijan and Armenia have been resisted by both Azerbaijan and Turkey. Armenia has been also left out of the Baku-Tbilisi-Ceyhan pipeline project. The EU finds the prospect of Armenia's isolation unwelcome and feels ways should be sought to accommodate a greater involvement by Armenia in EU-generated regional plans. In this context, an initiative involving a specific proposal for reopening the Turkish-Armenian border, exerting pressure on both sides for a rapprochement and promoting infrastructure projects would be a welcome development.

30. When, in October 2004, the European Commission recommended opening accession negotiations with Turkey, it noted that "the prospect of accession should lead to improving bilateral relations between Turkey and its neighbours in line with (the) principles of reconciliation on which the European Union is founded"⁴.

² Burcu Gultekin and Nicolas Tavitian, "Les relations Armeno-Turques: La porte close de l'Orient", GRIP 2003.

³ EU External Relations, "The EU's relations with Armenia – Overview", www.europa.eu.int.

⁴ Communication from the Commission to the Council and the European Parliament, Brussels, 6 October 2004, COM (2004) 656 final, page 4.

31. In an accompanying document, the Commission argued that:

“Through Turkey the EU could have a stabilising influence in the Southern Caucasus, provided that Turkey is willing to try to solve conflicts with its neighbours already before its accession. In particular, its relations with Armenia will need to be improved with the establishment of diplomatic relations and the opening of the land border which is currently closed. As regards the tragic events, in particular the human suffering in the region in 1915/1916, the prospect of Turkey’s accession must lead to an improvement in bilateral relations with Armenia and to reconciliation as regards these events. It is also important that Turkey should contribute to easing tensions between Azerbaijan and Armenia in the dispute concerning Nagorno-Karabakh.”⁵

32. On the other hand, the EU has made it clear to Armenia that it must recognise the existing border between Turkey and Armenia, thus putting an end to irredentist claims.

(c) Economic situation

33. Armenia’s prospects for economic development have been constrained by the Nagorno-Karabakh conflict and the resulting closure of the borders with Turkey and Azerbaijan. In addition, the country is poor in natural resources and until recently had been excluded from regional plans for energy infrastructure investments. It has also suffered from increasing migration, mainly to Russia. The Georgian economy has recently shown impressive GDP growth – from 3.3% in 1999 to 12.9% in 2002 and 13.9% in 2003⁶. However, large swathes of the population have no share in the growing wealth. In 1990, 53.7% of Armenians were living below the poverty line and the figure is currently still around 50%. The unemployment rate is an estimated 30%, while those employed are often working in the black economy without any legal protection. According to the government, the black economy accounts for 35% of GDP but independent experts believe that the figure is much higher. Business is controlled by clans and it is often rumoured that major companies, protected by political alliances, are able to evade taxation.

34. Recent developments in the business and energy field have increased Armenia’s dependency on Russia. Russia has been using debt as a means of pressure to coerce several of the newly independent states into equity-for-debt deals giving it control over strategic assets and resources. Moreover, the country suffers from three major economic handicaps: weakness of foreign investment, extremely small markets and high transport costs.

35. Earlier Russia acquired control of five state-owned Armenian enterprises, mainly in the energy field and, as a result, it dominates a large part of the Armenian energy sector where it now owns the country’s largest thermal power station at Hrazdan and is responsible for managing the Mezdamor nuclear plant (accounting for 40% of electricity generation), and six hydroelectric plants. In addition, Armenia is dependent on Russia for its main energy resources, nuclear fuel and natural gas. In June 2003, Armenia signed a contract with the Russian company Gazprom for gas supplies over the coming five years. The Armenian opposition has criticised the government heavily for its failure to look into alternative ways of paying its debts and for the secrecy surrounding the negotiations on debt settlement and energy supply. The view has been expressed that Mr Kocharian entered into a deal with Russia, in an attempt to win support prior to the May 2003 parliamentary elections. Certainly, President Putin was quick to congratulate Mr Kocharian on his highly contentious re-election which raised serious criticisms in the West.

36. As mentioned earlier, this year Armenia signed an agreement with Iran to construct a gas pipeline for the delivery of Iranian gas to Armenia. When completed in 2007, this pipeline will supply a third of Armenia’s gas needs.

⁵ Issues arising from Turkey’s membership perspective, Commission staff working document, Brussels, 6 October 2004, SEC (2004) 1202, page 8.

⁶ The World Bank Group, Armenia Data Profile, August 2004.

2. Azerbaijan

37. Azerbaijan is a country of 8.1 million people that borders the Caspian Sea, the Russian Federation, Georgia, Armenia and Iran. It is rich in hydrocarbons and for that reason is of extreme interest to Russia, the United States, the EU and also to Iran.

38. Azerbaijan gained independence in 1991 after the collapse of the Soviet Union but instability over the years that followed, mainly due to the Nagorno-Karabakh conflict, threatened the very existence of the new country. While the Nagorno-Karabakh conflict remains unresolved, the 1994 ceasefire has held well. Since 1996, under the authoritarian rule of the late president Heidar Aliyev, relative political stability in Azerbaijan has been achieved but the government is currently involved in a complicated balancing act both in foreign relations and in its internal policies.

(a) Political situation

39. The key figure in Azeri political life until recently was Heidar Aliyev, who had already occupied a number of important positions in the Soviet Republic of Azerbaijan from as early as 1967, the year when he became the Republic's head of the KGB and started to build the networks and structures which were to be the basis for his autocratic rule as its President. He eventually came to power in 1994.

40. Most, if not all experts, agree that President Heidar Aliyev re-established Soviet-style political methods of "partocracy" in a system which was held together by authoritarianism, violence and his personal charisma. Through the signature of the "Contract of the Century" in 1994, President Aliyev gave foreign companies an important stake in the exploration of his country's hydrocarbon resources, but also ensured that his government received extensive Western investment and diplomatic support from the West. Heidar Aliyev's succession had become an issue of great interest to the countries that had invested in the region and wanted stability and the *status quo* to be maintained. Knowing that he could no longer stay on as President because of his deteriorating health, Heidar Aliyev carefully prepared for the election of his son, Ilham Aliyev, as President of Azerbaijan. Heidar Aliyev is still considered to be the father of the new Azerbaijan, an image, clearly reflected in the many posters visible everywhere in the country, sometimes with, mostly without, his son.

41. The outcome of the presidential elections of 15 October 2003, which gave Ilham Aliyev 79.5% of the vote, was in fact endorsed by all major countries, including the European Union, despite serious criticisms by international observers that the election process "fell short of international standards". Peter Eicher, Head of the OSCE Observer Mission, noted that "we were particularly troubled by the level of intimidation and unequal conditions for candidates during the campaign"⁷.

42. The OSCE's final report found that the elections "failed to meet OSCE commitments and other international standards" with "significant irregularities during voting and widespread fraudulent practices during the counting and tabulation of election results". The report made mention of ballot-stuffing, multiple voting, voter intimidation, pre-marked ballots and other irregularities.

43. According to the opposition and to human rights NGOs like Human Rights Watch, the electoral campaign was characterised by abuse, police violence and arbitrary arrests against opposition supporters and bias in favour of Ilham Aliyev's candidacy⁸. On the other hand, the opposition failed to unite in a common platform despite agreement across the spectrum on the need for protest against an orchestrated succession. In the aftermath of the elections violence erupted in Baku, with clashes between opposition supporters of Isa Gambar, leader of the most popular opposition faction, the Musavat Party, and police special forces, resulting in the deaths of several protesters. In the weeks following the elections, hundreds of opposition supporters and activists were arbitrarily arrested in an effort to crack down on dissent and consolidate the authority of the new government.

44. In general, Western countries did not state any reservations they may have had, apparently preferring the political *status quo* in the country to continue.

⁷ Eurasia Insight, "Russia, Turkey quick to congratulate Ilham Aliyev over controversial election win", 16 October 2003.

⁸ Human Rights Watch, Briefing Paper "Azerbaijan: Presidential Elections 2003", 13 October 2003.

45. For the time being, the new President can count on external support. On the day the election results were announced, both Russia and Turkey were swift to congratulate the new President. Mr Putin was quoted as calling on Ilham Aliyev to further strengthen “the traditional partnership between the two countries”⁹. The Russians especially hope that continuity of the current regime will guarantee friendly relations between the two countries and a balanced approach towards Russia and the United States. To some extent the establishment of closer relations with Russia in the months preceding the election may also have been part of Heidar Aliyev’s efforts to amass support for the succession and his son’s future political survival. US officials who share an interest in the maintenance of political stability, containment of radical Islam and the development of oil investment have also recognised the new President, notwithstanding their rhetoric expressing concern about free and fair elections in Azerbaijan. The EU too has stated through its Special Representative to the South Caucasus, Heikki Talvitie, that “it will be working with Ilham Aliyev”¹⁰.

46. Ilham Aliyev has been quick to insist that he will keep existing policies in place and guarantee stability and continuity. He has identified Nagorno-Karabakh as the thorniest issue for Azerbaijan, noting that “we shall never reconcile ourselves to the current situation”¹¹. He has admitted too that he will have to move away from the current system of patronage towards promotion of longer-term stability and the development of modern institutions.

47. At present, Azerbaijan’s political and economic systems are still very much based on patronage, institutionalised corruption and regional and clan influences. The administration has a firm grip on the legislature. The 125-member National Assembly has little political weight and the opposition parties occupy only 11 seats.

48. In the longer term, Ilham Aliyev’s ability to consolidate his authority as the new President has yet to be confirmed. He carries less political weight and has less experience than his father and may be vulnerable to power struggles within the ruling elite. Intra-party fighting had already focused on a generational shift within the ruling clan prior to the elections. Nevertheless, some improvements can be observed.

49. Political prisoners are being released in an effort to comply with Council of Europe recommendations. Virtually all the politicians whom your Rapporteur met in Baku argued that Azerbaijan must aim for integration with European and Euro-Atlantic structures in order to bring security to the region and prosperity to the population. It would help Azerbaijan to develop further democratic structures and modernise socio-economic life. Good relations with Europe are also seen as a protection against Iran’s ambitions to propagate its ideas on religion and the state in Azerbaijan. Azeris recognise that, politically, their country is still in transition. Many citizens still have to discover the advantages of a Western democratic system – a learning process that may take a generation.

50. The question of whether the present political system will provide a guarantee for medium- and long-term stability is still relevant. In a Muslim country, the existence of a ruling elite which monopolises the country’s main sources of income, together with ubiquitous nepotism and corruption and the suppression of a healthy democratic opposition, may provide fertile ground for ultra-nationalist and Wahhabi or other Islamic fundamentalist movements.

(b) Foreign relations

51. The present government of Azerbaijan has a number of vital interests that determine its foreign policy. It wishes to settle jurisdictional issues over rights to Caspian Sea oil, ensure the security of the Baku-Ceyhan pipeline, secure investment from a variety of sources to develop its oil industry and its economy in general, avoid being dependent on any one foreign power economically and for its security and resolve the issue of Nagorno-Karabakh by regaining sovereignty over it.

⁹ Eurasia Insight: “Russia, Turkey quick to congratulate Ilham Aliyev over controversial election win”, 16 October 2003.

¹⁰ Eurasia Insight, “Azerbaijan’s new president expresses belief in ‘lucky future’ as crackdown on opposition continues”, 3 November 2003.

¹¹ *Ibid.*

52. In order to help achieve these objectives, Azerbaijan is engaged in a geopolitical balancing act in which it has been relatively successful, because it has something to offer in return.

53. The late President Aliyev's diplomatic efforts backed up by offers of oil sector agreements have succeeded in attracting US and European support. At the same time a successful rapprochement with Russia has been taking place since 2000. Mr Aliyev also tried to strike a balance in relations with Turkey and Iran, countries which are hostile to one another, even though Azerbaijan's alliance with Turkey is a foregone conclusion.

54. In the early 1990s, Heidar Aliyev attracted the interest of the United States which was anxious to increase its presence in the region. Obviously, the United States attached great importance to a Western-oriented Muslim state giving access to Central Asia and bordering Turkey and Iran, closely associated with NATO and rich in oil resources.

55. In the war against the Taliban regime in Afghanistan in 2001-2002, Azerbaijan authorised the US Airforce to fly over its territory. The US Administration rewarded Azerbaijan for its support by suspending section 907 of the Freedom Support Act, which then enabled the US to provide technical and military aid to Azerbaijan. During the preparations for the war in Iraq, Azerbaijan was virtually the sole Muslim country to support the American and British-led coalition. Following the formal ending of the war on 1 May 2003, it supported the US post-war reconstruction policy in Iraq and, in August 2003, it was the first Muslim state to send peacekeeping troops to Iraq.

56. The US Administration has given full support to the transition of power to Ilham Aliyev because it considers him an important ally in the war against terrorism, a vital activity to maintain stability in the Caucasus. The leadership of the Bush Administration is also closely associated with the US oil and energy business, which has important investments in Azerbaijan, and with the ruling elite of Azerbaijan.

57. In November 2003, US Defense Secretary Donald Rumsfeld visited Baku. After his visit, modernisation of the military airbase in Lenkora started under American supervision. Americans also provided Azerbaijan with new combat material for its posts along the border with Iran. Elsewhere in the country, military installations are being modernised under American supervision. More delegations of American military experts visited Azerbaijan this year and observers have noted that this growing US interest is connected with potential complications in Iran and with a struggle for influence in Azerbaijan with Russia. Military cooperation between the two countries has focused on enhancing Azerbaijan's naval force capabilities, the standardisation of control systems at airports and within Azerbaijan's air space.

58. The country joined the PfP (Partnership for Peace Programme) in 1994, and in April 2003, the late President Aliyev reaffirmed his country's intention to join the alliance. At the NATO Istanbul Summit in June 2004, its involvement in the Individual Partnership Programme was regarded as a major leap forward in terms of the country's security. President Ilham Aliyev confirmed at the summit that his country's policy "aimed at integration with European and Euro-Atlantic structures for more than ten years will continue". However, after his visit to Moscow in February 2004, President Ilham Aliyev declared that Azerbaijan should not hurry to join NATO.

59. On 13 September 2004, NATO cancelled the PfP exercise Cooperative Best Effort 2004, scheduled to begin that day in Azerbaijan, in protest against the fact that Azerbaijan had refused to grant visas to Armenian military and experts taking part in the exercise. The same exercise, with the participation of the same countries, had already been carried out in Georgia and Armenia. The defence authorities argue that Armenia did not fulfill one of the commitments which it accepted before becoming a PfP partner: to respect the integrity of the territory of other states.

60. Many observers saw the refusal of visas to Armenian officers as a response to heightened public hostility towards Armenia after Azerbaijani war veterans of the Karabakh Liberation Organisation received severe jail sentences for having disrupted a NATO preparatory conference in June 2004 in Baku in which Armenian officers had participated. President Aliyev had reacted publicly to the sentences, saying that "as a citizen" he believed that the punishment was disproportionate to the defendants' actions.

61. Azerbaijan, as a member of the coalition in the fight against terrorism, has not sent any combat forces to Iraq, but has deployed a 150-strong military contingent which is protecting holy places and other sites in the country.

62. Like the other countries in the South Caucasus, in terms of its foreign relations, Azerbaijan is engaged in a delicate balancing act. Its relations with Russia clearly reflect that policy. In 1992, it signed the Collective Security Treaty, a largely symbolic framework within which Russia develops relations with each member country, but did not renew its membership in 1998.

63. With Vladimir Putin's visit to Baku in January 2001, the foundations were laid for a new rapprochement between Russia and Azerbaijan. This was confirmed when, in February 2003, Azerbaijan signed agreements with Russia covering the terms of military cooperation between the countries' defence ministries and regulating military technical cooperation. Sales of arms by Russia to Azerbaijan and military personnel training are the main points of the agreements, which, according to the Russian defence ministry, aim to "restore the imbalance of forces in the region"¹². The agreements signify Azerbaijan's increasing importance in Russian foreign policy, brought about by closer US-Azeri relations and a more balanced Russian policy vis-à-vis Azerbaijan and Armenia. Baku is apparently gaining confidence by overcoming some of its mistrust towards Russia over its involvement in the Nagorno-Karabakh conflict.

64. Azerbaijan and Turkey are close allies with strong cultural, trade and military ties. The slogan "one people – two states" expresses their feelings of common origin, highlighting the role of the Turkic factor in the region. Turkey has supported Azerbaijan over the Nagorno-Karabakh issue by breaking off formal relations with Armenia, and has facilitated Azerbaijan's approach to the West using its position as the strongest NATO and US ally in the region. Turkey has also been a guiding force in Azeri internal politics and has been supportive of the both Heidar and Ilham Aliyev.

65. Azeri-Iranian relations are antagonistic because of their unresolved dispute over the division of the Caspian seabed while growing cooperation between Azerbaijan and the United States adds to the tension. Iran's efforts to project its cultural influence in the region are also viewed with mistrust by Azerbaijan which is making sustained efforts to prevent Iranian mullahs from exporting their vision of Islam to its own Shia majority, as it wishes to keep the country as a Muslim secular state. However, economic ties between the two countries are expanding and, in a recent deal, Iran extended loan packages to Azerbaijan for a number of infrastructure projects that will promote trade between the two countries and the development of the energy sector. An element of Azeri-Iranian relations that has also lately received attention is the Azeri minority in Iran.

66. Although no accurate figures are available, an estimated 16 to 20 million Azeris live in Iran. They are Iran's largest minority and represent roughly a quarter of the population of Iran. They are Shia Muslims and generally well integrated into Iranian society and the state. Azeris occupy high-level government positions and have played an important role in the national freedom movements of the twentieth century. The existing restrictions imposed on them after the 1979 revolution by the central authorities are mainly in connection with Azeri minority cultural rights. The teaching of their native language, Azeri Turkish, is forbidden, as is the publication of material in that language and the organisation of Azeri cultural associations.

67. However, whatever their grievances over the suppression of their cultural rights, Iran's Azeri population has shown little interest in making ethnically-based demands or in possible secession and unification with Azerbaijan. In the current climate, there is little evidence to suggest the Azeri minority might play a destabilising role. In the future, however, the direction of Azerbaijan's relations with Iran, and possible US involvement, could have an impact on the position of the Azeri minority.

68. Altogether, Azerbaijan's diplomacy owes much of its success to the country's potential for oil and gas production. The 1994 "Contract of the Century", for the exploitation of the Azeri-Chirag-Guneshli oilfields, created the Azerbaijan International Operating Company (AIOC). This project was skillfully manipulated to draw in the support of Western nations at a time when Azerbaijan was

¹² Gulnara Ismailova, 'Azerbaijan and Russia concluded military agreement', Central Asia-Caucasus Analyst, March 12, 2003

extremely vulnerable. The consortium of foreign companies competing for a share in the concession brought together British, American, Russian, Turkish, Japanese, Iranian, Saudi Arabian, Swedish, French, Belgian, Italian, German, and Spanish interests.

(c) Armed forces

69. In general, all three services of Azerbaijan's armed forces have limited operational capabilities¹³. Much of the combat equipment inherited from the Soviet Union in 1991 was not up to date at that time and has further deteriorated since because of poor maintenance, shortage of spare parts and other reasons. Many systems are non-operational or operating poorly. Moreover, most of the available combat equipment is not suitable for the new security challenges and mission requirements. Readiness and combat capability of the Azerbaijan armed forces is thought to be at a lower level than those of the Armenian and Karabakh forces.

70. The government is reluctant to trust the military as a result of early attempts by the military leadership to play a role in political affairs. The military leadership has been politicised and effective command and control are impeded by political funding, lack of experience and corruption. There are recent signs of substantial improvements in selected parts of the armed forces. The Nakhchivan battalion, a newly created elite force, is considered to be of high quality.

71. Experts have made it clear that Azerbaijan's armed forces need both major equipment modernisation and a re-equipment programme. At the same time, the military should upgrade the logistics and maintenance programmes supporting their existing systems. Armed forces will have to have new mission requirements and a broader range of military capabilities.

72. Long-term economic trends favour Azerbaijan and proper funding, together with an effective reform programme, could help overcome many of the existing problems – but it will take time.

(d) Economic situation

73. The South Caucasus' economic and political development is contingent on the management of the Caspian oil and gas reserves. While Azerbaijan is the only producer country in that region, important gains are to be expected for transit countries and the overall effectiveness of transport systems depends very much on regional cooperation and stability.

74. Recently, more realistic estimates have scaled down the importance of the Caspian oil deposits to about 5% of known world resources – roughly equivalent to those of the North Sea. Although this has dashed expectations that it could become another "Gulf", the Caspian will be an important future player in the global oil market and, in particular, a niche producer for the European market¹⁴.

75. Business interest in the region has declined because of recent findings indicating there are far larger oil deposits in Siberia and because of expectations that the Iraqi fields will produce more. For geological and geographical reasons, production costs in the Caspian region (around US\$ 14 per barrel) are much higher than in the Middle East (US\$ 4) or even in the North Sea (US\$ 12-13). However, oil companies that have already invested in the region will continue their activities. The same goes for other players, including the European Union, which have been involved in planning and developing the relevant infrastructure. Long-term sustainable investment can be supported even with lower profit margins.

76. Oil revenues and economic growth are likely to be less than anticipated as companies may prefer to avoid the risk of making massive new investments. This is bound to lower expectations of growth in Azerbaijan and other countries in the region, a factor governments will need to take into account. Azerbaijan's government in particular will also have to deal with the possibility that a growing gap in income and spending power between the oil-rich elite and the rest of the population could lead to political instability and social unrest.

¹³ Svane E. Cornell and others: "Regional security in the South Caucasus: the role of NATO", Central Asia-Caucasus Institute 2004.

¹⁴ Terry Adams (former president of AIOC), 'Caspian Hydrocarbons, the Politicisation of Regional Pipelines, and the Destabilization of the Caucasus', Caucasus Regional Studies, vol. 5, issue 1 and 2, 2000.

77. The choice of what strategy to follow for the main export transport route to the west had led to intensive discussions between those involved and turned oil into a major political issue in the region. In the years following the 1994 AIOC (Azerbaijan International Operating Consortium) agreement, the politics of cooperation were the order of the day as everyone was eager to get a slice of the cake and Azerbaijan's policy was generous enough to accommodate all of them through a multitude of agreements leading to the creation of large multinational consortiums. In addition, agreement was reached on the need to use existing transport infrastructure for the first oil that was extracted. The debate on whether to transport oil through Russia to Novorosiisk or through Georgia to Supsa was resolved by the decision to use both pipelines, a strategy consistent with both the US and EU policy of multiple transport routes. The new Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Yerevan gas pipeline will become operational in 2005 and 2006/2007 respectively (see chapter I, section 5 of the present report).

78. Oil is the engine of Azerbaijan's economy. Since 1994, the country has signed oil deals with 33 companies from 15 countries which are expected to bring a total of US\$ 60 billion in investments. However, only a relatively small part of the population is able to take advantage of the country's new wealth. Large amounts of property and energy revenues are in the hands of the ruling family and groups close to it, causing wide disparities in living standards. Currently, some 60% of the population is living below the poverty line, and an estimated two million Azerbaijanis have moved to the Russian Federation to earn a living for their families.

79. With GDP growth exceeding 10% in 2002 and 2003, Azerbaijan's economy easily eclipses growth in Armenia and Georgia. However, it is heavily dependent on the energy sector, which accounts for 40% of GNP and over 60% of investment. This leaves the economy highly vulnerable to external crisis.

80. Unfortunately, energy revenues are still being used to subsidise uncompetitive sectors of the economy rather than for much-needed reform. Large-scale privatisation continues to be ignored for fear it could challenge the vested interests of many in the ruling elite. For a number of years, the IMF has insisted on the need to develop infrastructure and human resources in the oil sector, even if this increases the non-oil deficit. Despite much analysis and a long-term oil revenue policy, however, there has been no significant progress on these issues.

3. Georgia

81. Georgia, with a population of 5.5 million, borders on the Black Sea, the Russian Federation, Turkey, Armenia, and Azerbaijan and is therefore strategically located at the crossroads of the east-west route between Europe and Central Asia and beyond, and the north-south route from Russia to the Middle East.

82. Georgia won independence from the Soviet Union in April 1991. However, from the start, ethnic separatist movements in Abkhazia and South Ossetia and the autonomous status of Adzharia (where the central authorities had very limited reach) had a negative impact on the stability and even the viability of Georgia as a state entity.

(a) Political situation

83. From the time of the country's independence, Eduard Shevardnadze dominated the internal political stage. Once the leader of the communist party in Georgia, he returned in 1992 in the midst of civil war and for over 10 years was both chief of state and head of government, with extensive executive powers. Shevardnadze's reputation in former years was that of an experienced politician, and it was thought he could help Georgia achieve political stability, as well as a degree of independence from Russia, although he failed to resolve the secessionist conflicts that plagued his country. However, as years went by, his popularity waned, largely due to his failure to reform a collapsing economy and to curtail rampant corruption. In the months leading up to the November parliamentary elections he was also criticised for the concessions he made to the Russian government in allowing the military bases to remain and over preferential deals in the energy sector.

84. The elections of 2 November 2003 were the occasion of the so-called "Rose Revolution", a decisive struggle between Georgia's "old guard" and the new westernised democratic forces that

ended with the resignation of President Shevardnadze, on 23 November 2003, in the wake of three weeks of demonstrations over accusations that the elections were rigged and that extensive vote tampering had taken place. Presidential elections were held in January 2004, which brought Mikhail Saakashvili to power with almost 97% of the vote.

85. The opposition that overturned Mr Shevardnadze is representative of the more westernised sector of Georgian society. The new President, Mr Shaakasvili, a former opposition candidate for the presidency, is a 35-year old US-educated lawyer. He stands, in the eyes of Georgian urban society, for getting rid of the bureaucracy and stagnation that are a hangover from the Soviet era and for bringing Georgia into the European family.

86. The new political leadership of Georgia was immediately endorsed by the US which offered its support to the new government. The US President, George W. Bush, expressed his support for the “territorial integrity of Georgia” and Secretary of State Colin Powell stressed in an OSCE meeting on 2 December 2003 that “no support should be given to breakaway elements seeking to weaken Georgia’s territorial integrity”¹⁵.

87. These statements came after a series of consultations in Moscow between the Russians and the leaders of Ajaria, Abkhazia, and South Ossetia. In the aftermath of Shevardnadze’s resignation all three regions turned to Russia for support, perceiving a possible threat from Tbilisi, since some members of the new leadership had in the past expressed the view that central control should be strengthened over the whole of Georgian territory. Indeed, the Ajarian leader, Aslan Abishidze, proceeded to declare a state of emergency in his autonomous region and to close the borders with the rest of Georgia until the presidential elections of 4 January had taken place.

88. Legislative elections on 28 March 2004 resulted in a massive victory for President Mikhail Saakashvili’s National Movement-Democratic Front which won 135 of the 150 seats contested. The remaining 15 were won by the New Right. According to Prime Minister Zurab Zhvania, the main focus of his government was to tackle the chronic arrears of payment of public sector wages and pensions, reduce corruption and promote Georgia’s integration into European structures. The government would also make sustained efforts to restore the country’s territorial integrity. The success and sustainability of the government’s reform policy depends on rapid progress and tangible achievements. To date, the government has in fact been successful in improving the payment of salaries and pensions, and tax receipts are rising.

89. The new administration has also declared its interest in improving the country’s relations with Russia and other neighbouring countries and in maintaining its western orientation and strategic partnership with the US.

90. Opposition politicians argue that under the present constitution, the President has too much power, while parliament is weak and cannot adopt or amend any law with financial consequences without government approval. The opposition thinks that Russian interests are the main obstacle to stability in Georgia. It is in favour of good neighbourly relations but wants Russia to give up its military bases in Georgia and not interfere in the country’s internal affairs.

91. At a donor conference in Brussels on 16 June 2004, international donors from 31 countries and 12 international organisations pledged, as a sign of support for its new government, to provide € 850 million to meet Georgia’s urgent needs for the period 2004-2006. The amount pledged is intended for budget support and urgent investment in energy, governance, poverty reduction, key infrastructure rehabilitation and food security.

92. On that occasion, the EU repeated its commitment to assist Georgia implement badly-needed political and economic reform. The European Commission pledged funds of over € 125 million for 2004-2006. Taken together with humanitarian and other assistance, total EU aid to Georgia for 2004-2006 amounts to € 137 million. This represents a doubling of EU assistance compared with the previous three-year period (2001-2003).

¹⁵ Reuters, “Powell says don’t support Georgia’s restive regions”, 2 December 2003.

93. As part of the EU-Georgia Partnership and Cooperation Agreement, the rule of law and the criminal justice system have been a focus of EC assistance under the TACIS programme since 2000. At the request of the Georgian government in July 2004, the EU launched a specific Rule of Law Mission to Georgia, EUJUST THEMIS, the first of that kind in the context of the European Security and Defence Policy (ESDP). EUJUST THEMIS consists of some 10 international civilian experts plus local staff. The mission's members are co-located in ministries and governmental bodies in Tbilisi and their main tasks are to:

- provide urgent guidance for the new criminal justice reform strategy;
- support the overall coordinating role of the relevant Georgian authorities in the fields of judicial reform and anti-corruption strategies;
- support the planning for new legislation as necessary, e.g. Criminal Procedure Code;
- support the development of international as well as regional cooperation in the area of criminal justice;
- coordinate in the area of rule of law with other relevant players within the international community including the OSCE, the Council of Europe and bilateral donors.

(b) Territorial integrity

Adzharia

94. When he took power, President Saakashvili made re-establishing central government control over Adzharia a key test of his new administration. The region had never formally declared independence from Georgia but retained its autonomous status after 1991 within the new independent Georgia. In 1992, however, the Chairman of the Adzhari Supreme Council, Aslan Abashidze, established a separate army, refused to pay taxes or customs duties to the central government, created separate political institutions and finally, in 2003, declared himself President.

95. After months of political manoeuvring, then of President Saakashvili's threatening to use force, with the help of Russia's constructive diplomacy, on 6 May 2004, Aslan Abashidze gave up control of Adzharia and left for Moscow, together with his close associates. Since then, the region has been reintegrated into Georgia. Elections for the regional Supreme Council were held on 20 June 2004 and the Georgian Parliament adopted a Constitutional Law on the Status of the Autonomous Republic. According to the Council of Europe's observer mission for the 20 June elections, "voting went smoothly, although the electoral process fell short of international standards in some regards"¹⁶. However, Adzharia's autonomy remains tightly circumscribed by the central government. The Constitutional Law gives the President of Georgia extensive powers and oversight of Adzharian structures, including the right to nominate the head of the Adzhari government. The Council of Europe's Venice Commission concluded that "this role of the President of Georgia seems democratically questionable and scarcely compatible with the status of autonomy"¹⁷.

South Ossetia

96. South Ossetia is a region of some 3 900 square kilometres which in 1989 had 99 000 inhabitants, 66% of whom were Ossets and 29% Georgians. In April 1992, following the Russian revolution and the ensuing civil war, the South Ossetian Oblast was incorporated into the Georgian Republic.

97. In 1989, the South Ossetians demanded unification with North Ossetia but, in December 1990, the Georgian Parliament abolished South Ossetia's autonomous status. Fighting broke out in January 1991 and most Ossetians fled to North Ossetia, while most Georgians left South Ossetia for Georgia proper. A ceasefire agreed in July 1992 is now being monitored by the OSCE which is also monitoring the Joint Peacekeeping Force (JPKF) established at the time. This is made up of three main battalions

¹⁶ Council of Europe "Conclusions of the Observation Mission", Adzharia, 20 June 2004.

¹⁷ Council of Europe, Venice Commission, "Draft Opinion on the Draft Constitutional Law of Georgia on the Status of the Autonomous Republic of Ajara", Opinion No. 291/2004, Strasbourg, 8 June 2004.

of Ossets, Georgians and Russians and is the only authorised force in the conflict zone. Since then, little progress has been made in establishing peace and stability, and South Ossetia is in deep economic crisis with chronic unemployment and shortages of food and energy.

98. The OSCE mission to Georgia initiated a Rapid Reaction programme in the Georgian-Ossetian area for the collection and destruction of weapons and munitions. This has yielded some results. The mission also provides financial assistance for small community-oriented projects to improve living conditions in the area.

99. At the end of May 2004, after more than a decade of uneasy but stable peace, Georgian Interior Ministry troops moved into South Ossetia and took various forms of action, officially as a “measure to halt smuggling”. South Ossetia is on the main transit route for road traffic from Russia to Georgia and the present ambiguous status of South Ossetia has transformed it into a haven for smugglers and powerful criminal organisations. The Joint Control Committee met in Moscow on 14 July 2004 to try to settle differences between the four members; South and North Ossetia, Georgia and Russia, but to little avail. Georgia accused the Russian Commander of the peacekeeping forces of taking an anti-Georgian stance and South Ossetia accused the OSCE of taking sides with the Georgians.

100. Three days of talks in Moscow led to an agreement, on 11 August, whereby the Georgian Defence Minister agreed to pull back all “unauthorised forces”, provided that the Ossetians did the same.

101. President Saakashvili has insisted that progress must now be made on a political settlement. He has offered South Ossetia “ten times more autonomy” than it had before the conflict and compensation to victims of the war, as well as assistance to refugees who have not returned.

102. The Georgian government has decided to revoke the 1990 resolution abolishing Ossetian autonomy, and has expressed its readiness to guarantee that if it returns to Georgian administration, South Ossetia will enjoy at least the same status as the autonomous Republic of North Ossetia does within the Russian Federation¹⁸. It has also proposed establishing a joint Russian-Georgian checkpoint at the southern exit to the Roki tunnel, the main route through the mountains from Russia into South Ossetia.

103. Currently, the joint peacekeeping troops and OSCE observers are merely monitoring the “zone of conflict”, supposed to consist only of a “security corridor” as defined by an agreement dating back to 1996. Peacekeepers now serve as a separation force between the ethnic Georgian and Osset villages of South Ossetia.

104. The Georgian government insists that the “zone of conflict”, as defined in the earlier 1992 accords, relates to the entire territory of South Ossetia, its argument being that it would allow peacekeepers and the OSCE observers also to monitor the Java district and the Roki tunnel which it claims have been used both as a training camp and a passageway for “volunteers” in a recent flare-up of violence in South Ossetia¹⁹.

105. It is said that talks may be held between the Georgian Prime Minister, Zurab Zhvania, and South Ossetian *de facto* President Eduard Kokoev in the second half of October 2004.

106. Russia has provided South Ossetia with support, in the form of Cossack volunteers and supplies of military equipment. Such actions cannot be regarded as helpful or conducive to stabilising the situation – the more so if one considers Russia’s attitude towards the Chechen separatists. The Russian government seems to understand, however, that to allow South Ossetia to join the Russian Federation, as the authorities there are demanding, would be irresponsible, and open up another Pandora’s box both in the Caucasus and in other parts of the territory of the former Soviet Union. It is now trying to slow down migration from South to North Ossetia by granting South Ossetians the opportunity to obtain Russian citizenship. In an attempt to maintain the *status quo*, it also introduced a visa system allowing inhabitants of South Ossetia to travel freely to Russia.

¹⁸ Andrei Piontovsky “Russia’s dead-end in South Ossetia” in Caucasus Reporting Service No. 248, 25 August 2004 (Institute for War and Peace Reporting).

¹⁹ Civil.Ge, UNAG online magazine.

107. Russian officials argue that South Ossetia's problems should be resolved step by step, dealing with all the different issues at stake: economic, cultural and military. They were taken by surprise by Georgia's military activities in the region which have upset relations between Russia and Georgia. Russia now hopes to be able to normalise the situation beginning with bilateral high-level meetings between the two countries, since it has an interest in having stable countries on its borders.

108. Russia should realise that it has an interest in the military and economic security of its borders, and in Georgia's stability, and act accordingly.

Abkhazia

109. Abkhazia, a territory of some 8 700 square kilometres with some 525 000 inhabitants in 1989, is likely to be the most thorny problem to solve. Over the last two centuries, because of the vicissitudes of history, what was formerly an overwhelming Abkhaz majority had dwindled to a mere 17% of the population in 1989, the remainder being Georgian (44%), Russian (16%) and Armenian (15%).

110. As part of the USSR, Abkhazia became the Abkhazia Soviet Socialist Republic in 1921 but in 1931 was made an autonomous republic, subordinate to Georgia. Abkhazians, however, particularly in the 1970s and later, made continual attempts to secede. April 1989 saw the first armed clashes between Abkhazians and Georgians and in August 1990, Abkhazia proclaimed itself a sovereign state, provoking a simmering conflict with the Georgian authorities that degenerated into war in August 1992, when the Georgian armed forces occupied large parts of Abkhazia. After 13 months of violent conflict, Abkhazians, supported by North Caucasians and others, in particular Cossacks and volunteers from the Russian army, succeeded in September 1993 in forcing the Georgian troops to withdraw from Abkhazian territory. A ceasefire was concluded between both parties and, since 1994, a Russian peacekeeping force under the auspices of the CIS and the UN has been monitoring the demarcation line between Abkhaz territory and the rest of Georgia, while the UN has deployed an observer mission.

111. The conflict resulted in several thousand dead and the displacement of over 250 000 people, in particular Georgians who have still not been able to return. As a result of the conflict, Abkhazia is a devastated region. Its population has shrunk from an estimated 500 000 people before the war to some 100 000 to 150 000 people. Around half of displaced persons from Abkhazia are living in the western part of Georgia. In August 2004, the European Commission allocated € 4 million to victims of the conflict, including the provision of basic food supplies to the 80 000 most destitute people in western Georgia. Up until now, between 50 000 and 60 000 Georgians have been allowed to return to Abkhazia's Gali region but, according to the Georgian government, two-thirds of Georgian Abkhaz displaced persons are still in Georgia. The many meetings and negotiations between the parties involved, mediated by Russia, the UN and the OSCE, have not produced satisfactory results and the peace process is obviously at a standstill.

112. The present government of Georgia has asked the UN Security Council to make vigorous efforts to arrive at a comprehensive and peaceful resolution of the conflict in Abkhazia. Three years ago, in 2001, the UN Secretary General's Friends for Georgia (France, Germany, Russia, the United Kingdom and the United States) agreed on and supported a document to facilitate basic negotiations. This document set out the division of powers between the central Georgian authority and Abkhazia, with the latter having wide-ranging autonomy within Georgia. However, no progress has been made since then.

113. Presidential elections held in Abkhazia on 3 October 2004 were not recognised by the international community. The OSCE Chairman-in-Office, Foreign Minister Solomon Passy from Bulgaria, disqualified them as illegitimate and unacceptable. The Russian Foreign Minister called the elections calm and democratic, expressing hope that talks on the peaceful settlement of the Georgia-Abkhazia conflict would continue after the elections. The two serious candidates for the presidency, the former Abkhaz Prime Minister and former KGB officer, Raul Khajimba, who had Russia's support, and opposition candidate Sergei Bagapsh, Director of the Abkhaz power company, said that the elections had been unfair and unjust, with widespread violations.

114. Election officials declared Sergei Bagapsh to be the winner but Raul Khajimba refused to admit defeat and started legal proceedings to petition for a new vote. When Khajimba supporters challenged the impartiality of the vote, the incumbent, President Arzindba, called on parliament to dismiss Abkhazia's Prosecutor General but parliament refused to do so.

115. Russia apparently ignored signs that Mr Khajimba lacked popular support and it may now try to find a compromise solution. According to observers, through its awkward manoeuvring in the elections, Russia may have damaged its position in Abkhazia, while Georgia must have realised that Russia is far from omnipotent in that region. However, it should not be forgotten that the officially elected President Bagapsh is favourably disposed towards Russia. The time does not yet seem ripe for major changes in Abkhazia and President Saakashvili, on 18 October 2004, rightly expressed scepticism about a political solution to Abkhazia being reached in the near future²⁰.

116. At present, it seems that the Georgian government will only be able to solve its problems with Abkhazia if it manages to improve its relations with Russia on a permanent basis.

117. However, Russia is probably the major obstacle to resolving the conflict. Russian management of the Abkhazia conflict is a blatant example of the practice of "divide and rule". Through an OSCE mandate, the Russians have monopolised the peacekeeping process in Abkhazia and implicitly supported the Abkhaz leadership in not agreeing to a resolution. Furthermore, Russia's power of veto in the UN Security Council and its position in the OSCE's Minsk Group enable it to block any serious attempts to reach a settlement. Russia has used its involvement in peacekeeping as leverage on the Georgian government. It has therefore played off the two sides against one another in order to maximise its own influence in the region. This was particularly so during the 1995 Georgian-Russian rapprochement, when Russia promised to exert pressure for a solution of the conflict in return for a 25-year extension of the agreement allowing it to station military bases in Georgia. Moreover, on 30 May 2003, at a CIS summit in St. Petersburg, Russian peacekeeping forces had their mandate extended for a period of 10 years.

118. The new Georgian President, Mr Saakashvili, has made clear his intention of bringing about peaceful reunification of the country by putting forward a peace plan. This envisages the creation of a Georgian Federation in which Abkhazia would have considerable autonomy. Tbilisi would in fact maintain control over foreign policy, defence, borders and the fight against organised crime, but Abkhazia would continue to have its own government and legislative institutions. In actual fact, Abkhazia would have all the rights of an independent state bar one – independence.

119. Recent developments in Adzharia, however, have demonstrated that promises of autonomy were not in fact fulfilled. The European authorities are trying to convince the Georgian government to concentrate on translating reform commitments on democracy, corruption and the economy into reality and to tackle the central government's relations with the two remaining breakaway regions at a later stage.

Controlling Georgia's borders with Russia

120. In recent years, Russia has consistently accused Georgia of not taking action against terrorists allegedly using its territory as a safe haven and an operating base for their illegal and often murderous activities on Russian soil – particularly in Chechnya. The dramatic outcome of the hostage-taking in the North Ossetian town of Beslan led to new accusations and the Russian Chief of Staff, General Yuri Baluyevskly, threatened to attack "terrorist bases in any region" of the world. Russia's Deputy Foreign Minister, Valery Loschinin, stated that terrorist training bases still remained in the Pankisi gorge²¹. The gorge has always been a focus of Russia's attention. It is a narrow, wooded valley in the Caucasus foothills, some 50 kilometres south of the border with Chechnya, where over 2 500 Chechen refugees are at present living among the local population. In 2003, Russia threatened intervention against what were allegedly Chechen rebel camps in the gorge and unidentified military aircraft dropped bombs on nearby forests.

²⁰ Abkhazia election debacle presents Russia with difficult choices, 20 October 2004, www.eurasianet.org.

²¹ Civil.Ge, UNAG online magazine, 21 September 2004.

121. The State Security Ministry in Georgia acknowledges that, until 2003, there were approximately 700 Chechen fighters and 100 Arab and other foreign allies in the valley. The Interior Minister insists, however, that the government has reasserted its authority over the valley, which now harbours only Chechen refugees and local residents. The UN High Commissioner for Refugees has stated that 80% of those refugees are elderly people, women and children.

122. On 21 September, Georgian Interior Ministry forces, in cooperation with the Security Ministry, carried out an inspection of the Pankisi gorge, checking all the 2 650 Chechen refugees in that area.

123. The Georgian Interior Minister, Irakli Okruashvili, has recently said that Georgia is ready to provide the Russian authorities with a list of those living in the Pankisi gorge²². The Georgian authorities have confirmed they have complete control over the situation and announced their intention to set up patrol groups of the various law enforcement agencies, which are to carry out round-the-clock patrolling of the gorge. In order to demonstrate their determination, Georgian security defence and border guard forces have also recently carried out high-visibility control operations in the Chechen, Ingush and Daghestani sections of the Georgian-Russian borders. According to the Georgian Border Guard Department, Georgian and Russian officials have stepped up cooperation and improved channels for exchanging information to prevent possible cross-border movement of illegal armed groups. In parallel, OSCE observers are patrolling border areas to give warning of incidents. There have been no recent reports from them of cross-border incursions.

(c) Russian military bases in Georgia

124. At the OSCE summit in Istanbul in November 1999, Russia undertook to reduce its military presence in Georgia, in compliance with the Conventional Armed Forces Europe (CFE) Treaty. The undertaking reached in Istanbul required Russia and Georgia to agree on the issue by 2001. That agreement has not yet been concluded, but Russia has partially fulfilled its obligation by dismantling its military bases in Vaziani (Tbilisi) and Gadauta (Abkhazia) – although no international observers have been allowed to confirm the latter's closure. Russia had earlier argued that military equipment had been removed from the Gadauta military base in Abkhazia and that the facility was being used by Russian peacekeepers deployed under CIS auspices²³.

125. At present, Russia still has military bases in Batumi, the capital of Adzharia, and Akhalkalaki in the southern Georgian region of Samtskhe-Javakheti, predominantly populated by ethnic Armenians. Russia also retains five other military facilities in Georgia which should be handed over to the Georgian Defence Ministry, but on which no progress has been made either: these consist of a warehouse and baths in Tbilisi, a military sanatorium in Kobuleti (Adzharia), two military camps attached to the Akhalkalaki base and a heavy armour factory in Tbilisi which is used to repair Armenian battle tanks and is a source of concern to Azerbaijan.

126. Russia is worried about the possibility of Georgia joining NATO as a full member, possibly resulting in a Western military presence at its southern border. Since mid-2002, some 200 American military trainers have been helping Georgia deal with terrorist threats. Many other NATO countries, notably Italy, are providing Georgia with military assistance. US Secretary of State Colin Powell maintains that they are actually helping Russia through their efforts to keep terrorists away from Georgian territory and has stated that the US has no intention of establishing military bases in Georgia once its military training programme for Georgian troops comes to an end²⁴.

127. The Georgian government argues that the presence of Russian military bases poses a threat to the country's security and stability. It also regards them as major sources of arms and weapons, and a destabilising force in both the country and the region²⁵.

128. The Russian Defence Minister, Sergei Ivanov, has said that Russia will only withdraw from its remaining military bases in Georgia once a treaty between both countries has been formally agreed,

²² Declaration made in Kyiv, 2 October 2004.

²³ Civil.Ge, UNAG online magazine, 24 February 2003.

²⁴ www.dailytimes.com.pk, 26 January 2004: Powell rules out US bases in Georgia.

²⁵ Civil.Ge, UNAG online magazine, 15 January 2004.

adding that the withdrawal of troops will require funding for the construction of new garrisons in Russia. Georgian government officials have said that Russia has referred to sums of between US\$ 400-500 million. Russia has asked Georgia for at least a decade's grace for withdrawal from the bases. Negotiations between the Russian and Georgian Ministers for Defence on 10-11 August 2004 appeared to be approaching a compromise involving a seven to eight year period²⁶.

129. Before the end of 2004, Presidents Saakashvili and Putin are expected to sign a Russia-Georgia framework treaty addressing cooperation and security issues. This should also deal with the final status of the military bases.

(d) Foreign relations

130. Clearly, Russia is a very important factor in Georgian foreign and security policy. Georgia's former National Security Council Secretary and former Foreign Minister Tedo Japaridze noted in an interview²⁷ that "the Russian factor is by far the most important for Georgia, Azerbaijan, and Armenia" and also made the point that "Russia has its own interests in the Caucasus region, but an important nuance is that Russia has not yet decided what interests it should have". Mr Japaridze also referred to a recent conversation with US National Security Advisor, Condoleezza Rice, who had stressed the importance for Georgia of having settled relations with Russia²⁸. Mr Japaridze was aware that "the prospects for Georgian-US relations include the issue of the future role of Russia".

131. The Georgian Foreign Minister, Salome Zourabichvili, a former French Ambassador to Georgia, has recognised that relations between Russia and Georgia are not as they should be and that there are as yet no signs of improvement. She nevertheless takes the view that both sides were prepared to discuss real problems. She thinks that Russia should be a real mediator in the settlement of the South Ossetian and Abkhaz conflicts but that the process will take time and require a rebuilding of trust between Russia and Georgia²⁹.

132. Already, under President Shevardnadze, Georgia had endorsed a pro-Western policy and secured increased cooperation with the United States. In recent months, and following the 11 September 2001 attacks, the US significantly increased its presence in Georgia, first with the launching of the Train-and-Equip Programme designed to train elite Georgian troops for security operations against terrorists. On the "anti-terrorism front" Georgia was one of the first countries to express support and provide the US with facilities for in the war in Iraq.

133. Indeed, Georgia's pro-western policy is the strongest in the Caucasus region and Georgian aspirations to join NATO found official expression at the Alliance's 2002 Prague Summit. Georgia, already an active member of NATO's Partnership for Peace Programme, is also a founding member of the Euro-Atlantic Partnership Council. Besides, at the NATO Summit recently held in Istanbul, the organisation welcomed the Georgian government's decision to develop its partnership with the Alliance.

134. Georgia has bilateral military cooperation agreements with some 20 countries, the main goal being to help it establish effective armed forces. In this way, Georgia hopes in due course to fulfil the necessary conditions for NATO integration. The US-Georgia Training and Equipment Programme, with a budget of more than US\$ 65 million, is by far the most important such agreement but Turkey, Germany and other countries in Europe are also running important programmes to provide support for the transformation of Georgia's military forces.

135. The above developments have created a sense of disturbance and unease among Russian officials which has found vocal expression in military circles. President Putin's comments on Georgia's relationship with the United States have, however, been far more conciliatory. This could well be part of Mr Putin's broader pragmatic strategy of keeping foreign policy in line with state

²⁶ International Crisis Group "Saakashvili's Ajara Success: Repeatable elsewhere in Georgia?", Tbilisi/Brussels, 18 August 2004.

²⁷ Outcome of Georgian-Russian dialogue unpredictable – Georgian Security Official, A EurasiaNet Q&A with Tedo Japaridze, 19 September 2003.

²⁸ Eric A. Miller, "Georgia looks west for help in resolving Abkhazia issue", Eurasia Insight, 21 August 2003.

²⁹ Civil.Ge, UNAG online magazine, 4 October 2004.

capabilities in an effort to concentrate resources on the task of reviving the fortunes of the Russian state rather than stretching them to the limit in imperialist ventures in the “near abroad”.

136. However, Georgia’s strategic importance for Russia cannot be overstated. Its position as an important nerve-centre on Russia’s southern Black Sea border, adjacent to the turbulent North Caucasus region and a transit country between Russia and Armenia for civilian and military goods, makes it a focus of Russian foreign and security policy. Recent developments following Mr Shevardnadze’s resignation are evidence of the Kremlin’s intention to promote its interests aggressively in the new political environment and to make use of its traditional forms of leverage (i.e. close relations with the secessionist and autonomous regions) in its relations with Tbilisi. For example, the Russian Foreign Affairs Minister, Mr Ivanov, was invaluable as a mediator between President Shevardnadze and opposition leader Mr Saakashvili. Russia’s aim was to set itself up as an honest broker with peaceful intentions. Ultimately, Russia would certainly not be unhappy with a situation in which the United States and the European Union were forced to deal with Moscow rather than directly with the states of the South Caucasus.

137. Georgia, the first of the three South Caucasus states to have become a member of the Council of Europe, has also expressed its interest in moving towards integration in European structures with a view to future European Union membership. The current process of EU enlargement has already generated enhanced cooperation between the countries of the South Caucasus and European structures, under the EU’s neighbourhood policy, as decided by the European Council in June 2004.

(e) Economic situation

138. After Georgia’s independence in 1991, its economy crumbled rapidly as a consequence of civil war, the loss of preferential access to its traditional markets and the cessation of budget transfers from Moscow. Industrial output fell by 70% and exports by 90%.

139. The Georgian economy, with agriculture as its leading sector, is still rather weak. The main problems that face it are territorial fragmentation and the inability of the central authorities to control several regions within the country; central government’s failure to collect taxes (Georgia has one of the worst problems worldwide in this respect); the size of the “unofficial” economy and the extensive illegal trade and trafficking that takes place and, most importantly, rampant corruption. As a result the business environment in Georgia has not been conducive to Western investment. However, a rapid rise in investment is projected in connection with the Baku-Tbilisi-Ceyhan oil pipeline, and spill-over from the pipeline activity is expected to be reflected in a GDP growth of up to 9% in 2004³⁰. Economic development will, however, continue to be constrained so long as central government fails to get a grip on most economic activity and sources of instability remain. It should be noted that Turkey continues to be Georgia’s main economic partner (although Western countries’ share of foreign trade is rising) notwithstanding the degree of its dependence on Russia.

140. Despite the many problems referred to above and the political crisis that occurred at the end of the year, the economy proved resilient in 2003³¹. In March 2004, the government presented its reform agenda for 2004-2009. This is supported by the IMF and aims to encourage low-inflation growth and improve living standards and the delivery of basic services. A decisive crackdown on corruption should result in increased tax revenue and make expenditure on core social and infrastructure projects possible.

141. In the field of oil and energy, one of the main developments is the start of construction work on the Baku-Tbilisi-Ceyhan oil pipeline, negotiated in recent years and for which Georgia cherishes high hopes of economic benefits and Western investment. However, the benefits of completion of the project could be partially offset by very recent developments bringing Georgia’s energy market under Russian control. With the conclusion of recent deals negotiated behind closed doors, the Russian electricity monopoly, RAO Unified Energy Systems, acquired 75% of the AES-Telasi joint-venture – having essentially bought out the American AES’s share – thus gaining decisive control over

³⁰ Country outlook, Economist Intelligence Unit, 25 June 2003.

³¹ World Bank, Georgia country brief 2004.

electricity distribution in Georgia. Russia has already used power cuts in the past as a means of political leverage.

142. Of equal, if not greater importance is the 25-year strategic development agreement between the Georgian government and Gazprom, giving the latter rights over the use of Georgian national pipelines in exchange for investment in the gas pipeline network – thereby jeopardising the country's sovereignty over its resources. This deal is also expected greatly to facilitate Gazprom's expansionist policy towards Turkey by allowing Russia to use the Georgian pipelines and the Blue Stream line, thus gaining a monopoly over the Turkish gas market. Indeed, these developments could damage the feasibility of the Shah-Deniz project in which Western companies anticipated investing in the construction of a new natural gas line connecting the Azerbaijan gas field to Turkey via Georgia.

143. The political dimensions of the Russian "take-over" of the Georgian energy sector are likely to influence the Georgian internal political scene as well as the country's political independence. The background to the discussions that led to the conclusion of the deal with Gazprom suggests a certain political involvement on the part of the upper echelons of Russian policy-makers. Indeed, Gazprom has launched an expansive strategy towards the CIS in a well organised effort that has already reaped rewards in the cases of Georgia, Armenia and also Turkmenistan.

144. In any case, the two new energy deals, alongside potential takeovers in the telecommunications field, have added to Russia's economic and political leverage over Georgia and enhanced its position in the region. Russian officials point out that as Russia sells natural gas to Georgia at US\$ 60 per cubic metre this should be seen as financial assistance. But both US diplomacy and Western investors have been equally alarmed by recent developments. American officials have cautioned the Georgian leadership about the possible damaging effects on Western investment, especially in connection with the Shah-Deniz project³².

145. The United States, in a show of discontent, cut its financial assistance to Georgia by roughly US\$ 100 million for 2004. It has been disclosed that US\$ 34 million is to be cut from energy-related projects, possibly as a response to the recent Georgian concessions to Russian energy companies. It has also been suggested that this was a measure calculated to put pressure on the Georgian government to ensure that last November's parliamentary elections were free and fair. The US government had already intervened, in early July 2003, by promoting a plan for the adoption of a new electoral code and for fairer representation of opposition parties on electoral commissions as a measure to contain electoral fraud. In the event, Georgia, the second per capita US aid recipient after Israel in recent years (with US aid totalling US\$1.3 billion over the past decade), failed to curtail corruption or introduce the reforms on which the aid was conditional.

4. Nagorno-Karabakh

146. During the Soviet Union era, Nagorno-Karabakh was an autonomous region inside the Azerbaijan Soviet Republic. The majority of the population of the enclave were Armenian.

147. In 1988, when the Soviet Union still existed, the Supreme Soviet of Nagorno-Karabakh declared independence, causing nationalist movements in both Armenia and Azerbaijan to react, leading to mass demonstrations and refugee movements in both republics. In January 1990, pogroms and demonstrations in Baku led to armed intervention and the killing of 190 demonstrators.

148. After the *de facto* collapse of the Soviet Union, Nagorno-Karabakh proclaimed independence. Proclamations of independence by both Armenia and Azerbaijan then followed. In 1992, Armenian military forces occupied Nagorno-Karabakh, resulting in a war with Azerbaijan and the occupation of 20% of the territory of that country, including Nagorno-Karabakh and seven regions attached to it. The war left 30 000 Azerbaijanis dead. Around 60 000 Azerbaijanis from Nagorno-Karabakh and over 600 000 Azerbaijanis from neighbouring regions became internally displaced persons (IDPs). They are currently living in some 1 600 temporary accommodation facilities. At present, there are around one million refugees and IDPs in Azerbaijan, making up some 12% of the population. In the period from

³² Zeyno Baran, Deals give Russian companies influence over Georgia's energy infrastructure, 18 August 2003, Eurasinet.org.

1988-1992, an estimated 350 000 ethnic Armenians left Azerbaijan. There are currently still some 240 000 refugees in the country.

149. OSCE efforts, giving rise to a conference in Minsk, and Russian mediation led to a ceasefire being signed in 1994. Peace talks have been held under the auspices of the Minsk Group, an OSCE body which has been co-chaired by Russia, the United States and France.

150. Initiatives by the co-chairs have resulted in negotiations between the two governments and in a series of bilateral meetings between the Presidents of Armenia and Azerbaijan, culminating in talks in Paris in March 2001, and in Key West, Florida, in April 2001. However, even these did not produce tangible results. In 2002, it was agreed that the Deputy Foreign Ministers of both countries would meet on a regular basis to keep discussions going. The process stalled in 2003, when both countries held elections.

151. After the October 2003 presidential elections in Azerbaijan, President Kocharian and President Aliyev met in November and a number of bilateral meetings of the Presidents and Foreign Ministers of both countries took place in 2004. The last meeting of the two presidents on 15 September 2004 in the margins of the CIS Summit in Astana, Kazakhstan, did not produce a breakthrough.

152. It sometimes appears that both countries are again adopting more radical positions. Each has increased its defence expenditure and the new President of Azerbaijan has apparently used the issue of Nagorno-Karabakh to demonstrate his authority through tough talking.

153. Many different proposals have been put forward for a settlement. The Minsk Process has produced different options for a solution but these have not yet yielded any result. They include:

- a step-by-step approach, which envisages first the withdrawal of Armenian armed forces from occupied territories, then dealing with refugees and other issues, and finally definition of the final status of Karabakh. This solution is the one favoured by Azerbaijan;
- the “common state” proposal, providing for a common state between Karabakh and Azerbaijan with substantial autonomy for Nagorno-Karabakh inside Azerbaijan;
- the “package solution” for a comprehensive settlement of all the issues at stake at one and the same time. This is the option favoured by Armenia;
- land swaps, whereby Azerbaijan cedes Nagorno-Karabakh and the Lachin corridor in return for a land corridor across Zanguezur, linking its main territory to Nakhichevan.

154. Both countries may have reason to think that they have time on their side. A former Russian co-chairman of the Minsk Group gave a rather grim assessment of the current situation when he suggested that both Baku and Yerevan were deliberately delaying settlement of the Nagorno-Karabakh dispute, the former because it sees the balance of power shifting in its favour, the latter because it hopes that all interested parties will get used to the *status quo*³³.

155. Indeed Azerbaijan, with its growing oil revenues, may be able to build up a military advantage over Armenia that will either allow it to retake Karabakh by force or persuade world and regional powers to pressure Yerevan into making concessions in order to prevent a war. But these options seem unlikely, particularly since, despite the forceful language emanating from some government authorities, the Azerbaijan government recently took steps to close a dozen camps and to move displaced persons into new settlements, as part of an effort to defuse tensions over the refugee issue.

156. Both governments are aware that any settlement of the conflict will have to be the result of a compromise, with give and take on either side. They will also have to make a determined effort to prepare public opinion to accept a peaceful settlement, which would greatly enhance stability and economic development throughout the region. In the past, the conflict over Nagorno-Karabakh has all too often been exploited to win over the population and the vote of the electorate.

³³ Michael Weinstein, “Armenia, the dream of complementarity and the reality of dependency”, 29 September 2004, www.eurasianet.org.

157. The large majority of your Rapporteur's Azeri interlocutors were in favour of a peaceful solution to the Nagorno-Karabakh conflict. Although some showed signs of impatience over the lack of tangible results after so many years of negotiations, they agreed that the use of force would not lead to a lasting solution.

158. Azerbaijan points out that the UN Security Council has adopted four resolutions asking Armenia to withdraw from occupied territories. The Azeri government recognises that there is no evidence of terrorist training camps in such territories, but it argues strongly that the settlement of Armenians in them – which allegedly is taking place, with financial support, accommodation and land distribution being organised by the state – must be stopped.

159. The Defence Ministry points out that according to the CFE Treaty, each of the three South Caucasus countries is entitled to the same numbers of pieces of equipment but that Armenia has concentrated its illegal surplus of arms and ammunition in occupied territories.

160. Military experts do in fact acknowledge that there is a well-equipped and trained Karabakh Defence Force, a 20 000-strong active force (40 000 if reserves are mobilised), which is highly integrated with the Armenian armed forces and receives direct economic and logistics assistance from Armenia. Those forces are currently not accounted for under the CFE Treaty.

161. Azerbaijan is prepared to continue negotiations but it notes that it will not compromise on its territorial integrity and sovereignty. It views Nagorno-Karabakh as a lawless and uncontrolled area which is a constant threat to security and stability in the region.

162. Armenian contacts made it clear to your Rapporteur that they do not wish to see a return to the pre-1988 situation in Nagorno-Karabakh. They argue that it can no longer be a part of Azerbaijan and must have a common border with Armenia. Any future solution must include satisfactory security guarantees so there can be no threat of war. Armenia was not opposed to a connecting road between Azerbaijan and Nachkichevan with a tunnel or a fly-over, but would never back down on the issue of a common border with Iran.

163. Foreign affairs experts in Armenia do not foresee an imminent breakthrough in negotiations over Nagorno-Karabakh. This concerns them, as the deadlock is preventing the integration of the South Caucasus countries into the Euro-Atlantic structures, holding up economic development and diverting financial resources into disproportionate defence spending.

164. Your Rapporteur takes the view that the work of the OSCE and the Minsk Group under its different co-chairs continues to be important for facilitating discussions but that at the end of the day only the parties themselves can reach a settlement.

165. The EU could also help matters in various ways. It could step up work on its rehabilitation programmes for damaged areas and promote economic growth in regions to which refugees would then be prepared to return. It could also support bilateral policies to advance the peace process, such as civil society confidence-building measures.

5. Pipelines in the South Caucasus

166. Almost immediately after the dissolution of the Soviet Union, oil companies from practically the entire developed world flocked to the countries around the Caspian Sea, trying to conclude agreements on the exploitation of gas and oil fields in the region. It was clear from the beginning that the South Caucasus had a strategic position for the transit of energy supplies to the West. Understandably, the question of the future main export pipelines became an issue of hot debate and dissension between Russia and Iran on the one hand, and the US, Turkey and Georgia on the other, while the European Union remained in favour of the multiple pipelines approach. It was finally decided to build a Baku-Tbilisi-Ceyhan (BTC) line for transporting oil through Azerbaijan, Georgia and Turkey, operational by 2005, while a Baku-Tbilisi-Erzurum (BTE) gas pipeline, operational at the end of 2006 or in early 2007, would transit through the same three countries.

167. BTC and BTE will provide an east-west transportation axis insulated from direct Russian interference and circumscribe Iranian involvement in the region. These are projects that will bring in direct revenues and ensure Western investment in Azerbaijan, Georgia and Turkey. They also

represent a breakthrough since they can contribute to the “silk road revival” and guarantee western interest in the region in economic and security terms. So far, Azerbaijan, Georgia and Turkey have signed a number of agreements with the objective of securing the pipelines against military and terrorist attacks. The United States has also been supportive of stepping up security in the region and has provided both countries with military assistance.

168. The US administration has also made it clear that political reasoning has influenced its decision to support the construction of the BTC/BTE pipeline. Indeed, the oil and gas resources of the Caspian have been a means rather than an end in American policy in the region³⁴.

169. Russia, although dissatisfied with the final agreement on the pipeline construction and also because it has lost its position of dominance in the transit of supplies to the West, has taken a moderate line and is seeking to promote Azerbaijan as a case for closer Russia-Western cooperation. This position has been facilitated by the complementarity of Azerbaijan’s foreign and oil policy, which has taken some account of Russian interests, and by its need to enhance cooperation with the United States over the exploitation of its own energy resources.

170. Iran is another regional player with a stake in the oil reserves of the Caspian Sea which has also been seeking a wider role in the region. Iran is currently the only littoral state to insist on the “common resource” interpretation of the legal status of the Caspian, thus preventing a formal resolution of the dispute and causing increased friction with Azerbaijan. However, in practice, Iran has not curtailed oil extraction projects but has instead been eager to increase its own participation. Taking part in the energy development of the region would provide Iran with a way to enhance its relations with the West, thus circumventing the US embargo. United States pressure on Azerbaijan has, however, made Iranian participation in most of Azerbaijan’s projects impossible, and is inhibiting the use of the Neka-Tehran pipeline. Tehran, however, is continuing to press for a North-South pipeline for the transit of Kazak oil, a plan supported by the French Total Fina Elf consortium. As noted earlier in this report, it has succeeded in concluding an agreement on a Tabriz-Yerevan gas pipeline which could later be linked with the European network via the Black Sea coast and Ukraine.

171. The US role in the region has been growing, especially since the mid-1990s and even more so after 11 September 2001, because of the increasing importance of the region in security terms. The US energy agenda in the region was shaped under the Clinton administration with the main aims of achieving diversification of energy supplies, and less dependence on Gulf oil and of supporting the nascent democracies in the South Caucasus and Central Asia regions. The main and at times conflicting guidelines of US policy have been to diversify oil transport routes, contain Iran, and check Russian influence in the region. Currently, American involvement in the energy sector has been criticised as inadequate, with warnings of aggressive moves by Russia to take control of the politically sensitive energy markets in the region.

172. Since 11 September 2001, the Caspian basin and the South Caucasus region have acquired paramount importance for US policy in strategic and security terms, while at the same time the region’s significance to US energy policy strictly speaking has diminished.

173. The newfound vigour of US diplomacy, which seems to have played a significant role in handling the crisis following the ousting of President Shevardnadze in Georgia, could also partially be attributed to Russia’s recent aggressive tactics in the energy field. Indeed, in recent months Russia has been consolidating its dominant position in Georgia’s and Armenia’s energy markets, a move not welcomed by the United States, whose wider security and strategic interests do not mesh with Russian regional imperialism.

174. Individual European countries are present in the region with many companies participating in large consortiums, especially in Azerbaijan. The European Union has initiated a number of projects under the TRACECA (Transport Corridor Europe Caucasus Asia) and INOGATE (Interstate Oil and Gas Transport to Europe) initiatives and the 1994 Energy Charter, the objectives of which are to develop the regional transport and communication infrastructure along a “new silk road”. These

³⁴ Batu Kutelia, “A new silk road strategy and the security of the Caucasus”, NATO Defence College, Monograph series, no.10, ed. Dieter Ose and Laure Borgomano-Loup, 2001.

initiatives to provide critical technical assistance and develop a network of intraregional economic ties have projected the EU into a position of regional responsibility. The stated aspirations of the South Caucasus countries towards a European future and the EU's neutral position in the "Great Game" had created expectations of specific EU involvement in the region. The EU, as the major customer for Caspian oil and gas, does in fact have a clear interest in energy supply stability and hence in active involvement in the region. Logically, all these issues will be addressed in the European Neighbourhood Policy which is discussed in more detail in chapter II of the present report.

II. The European Union's role in the South Caucasus

175. Of the three countries in the South Caucasus, only Georgia has stated officially that its final objective is to become a member state of the EU. Both Armenia and Azerbaijan are interested in a close relationship with the EU but, at present, they are not aiming at membership status.

176. The EU, for its part, has not made any proposal regarding future membership for those states, but has taken an interest in each of these countries since they became independent. In 1992-2000, the EU spent over € 1 billion on bilateral and regional programmes in the Caucasus, essentially through its TACIS programme (Technical Assistance to the Commonwealth of Independent States). Over that period, the same amount was spent by the EU member states in the framework of bilateral aid programmes for the South Caucasus.

177. The EU's efforts were concentrated on the TRACECA programme (Transport Corridor Europe-Caucasus-Asia) also called the "new silk route", the INOGATE programme (Interstate Oil and Gas Transport to Europe) and on programmes for rule-of-law building, legislation connected with the development of a market economy, and the improvement of infrastructure.

178. It is currently recognised that both TRACECA and INOGATE have run out of steam because of unresolved conflicts and the competing interests of other players in the region. The EU is now exploring how to move forward on these issues, aware that any new initiatives will have to be presented in cooperation with both Russia and Iran.

179. A more formal relationship with the three South Caucasus countries was outlined in the Partnership and Cooperation Agreements which entered into force for all three countries on 1 July 1999. At that time, the Council, after a meeting in Luxembourg with the Presidents of the three countries on 21-22 June 1999, had concluded that the "PCAs offer a platform from which to address coherently political, economic and assistance-related issues (...) however, the objective must remain that of moving towards balanced relationships based primarily on trade and investment (...)"³⁵. With regard to conflict resolution, the Council stated that "the EU instruments should, as far as possible, be used to support the peace processes under the aegis of the UN and OSCE (...) [also] the EU should be able to use its instruments to encourage rapid implementation of concrete confidence-building measures"³⁶.

180. In the framework of Partnership and Cooperation Agreements (PCA), the EU has financed small-scale rehabilitation projects in former conflict areas in South Ossetia and in regions in Azerbaijan liberated from Armenian occupation. The EU is also deploying efforts to restore the hydroelectric power plant on the Inguri, close to Abkhazian territory and helping improve border controls between Russia and Georgia through support to the Georgian Border Guard and the OSCE's work in the area.

181. A Ministerial Troika visit to the region on 20-21 February 2001 was the first step towards an upgraded EU policy for the Caucasus. In its conclusions of 26-27 February 2001, the Council stated: "The EU is willing to play a more active political role in the region" and requested the Commission "to make recommendations for the implementation of a reinforced EU policy"³⁷. The European Parliament subsequently took a lead in acknowledging that the South Caucasus countries "constitute a

³⁵ General Affairs Council, 21-22 June 1999, Press: 198-No. 9008/99.

³⁶ *Ibid.*

³⁷ General Affairs Council, 26-27 February 2001, Press: 6506/01.

strategically important region for the EU in terms of its common foreign and security policy, as well as a genuine gateway to Central Asia”, and proposed a “comprehensive and long-term Common Strategy for the countries of the South Caucasus (...) and the promotion of a framework for security and cooperation between the three countries of the region and between them and neighbouring countries [drawing] lessons from the experience of the Stability Pact for South-Eastern Europe”³⁸. The same document suggested the appointment of an EU Special Envoy for the region as well as the implementation of an EU programme for the prevention of violent conflict.

182. Of late, the European Union has begun to take a more specific interest in the South Caucasus and has formulated a strategy to allow for a deeper and more inclusive EU involvement in the region. On 7 July 2003, Heikki Talvitie was appointed EU Special Representative (EUSR) for the South Caucasus in accordance with the Council’s wish for the EU to assume a more active political role.

183. The EUSR’s primary remit is to assist the three states in the South Caucasus in carrying out their political and economic reforms with a special emphasis on such areas as rule of law, democratisation, human rights, and good governance. The EUSR is also supposed to prevent conflicts and assist in the resolution of existing conflicts – without being part of negotiation frameworks like the Minsk Group or the Friends of Georgia – and in good cooperation with key national actors in the neighbouring region. Further tasks of the EUSR are to prepare for a return to peace by trying to promote the return of refugees and internally displaced persons and to encourage and support intra-regional cooperation between the states on such issues as the economy, energy and transport. Finally, he is supposed to make existing EU tools and machinery more effective and visible in the South Caucasus.

184. In general, Mr Talvitie is supposed to generate useful ideas for the EU’s policy in that region. Although EU experts are aware that his margin of manoeuvre is limited and that member states do not wish to see too high a profile of the EU as such in the area, the EUSR has been doing useful work and the inclusion of the region in the European Neighbourhood Policy is also considered to be the result of his activities.

185. However, the European Union has shown little readiness as yet to assume an explicit security role in the South Caucasus and this may well remain the case. A European strategy is more likely to opt for an approach which accommodates and is complementary to existing initiatives, especially by the UN and the OSCE, rather than pursue distinct, competing conflict-resolution routes. EU efforts in that respect are more likely to contribute to building bridges between civil-society players in the countries in the wider region and also to promote confidence-building through continued support for regional cooperation activities. This would indeed be an area in which the EU’s contribution could have a most significant impact, bearing in mind its profile in the region as a neutral player and the stated wish of all three South Caucasus countries for the EU to have a greater role and for greater integration with European institutions.

186. However, it has rightly been stated that Europe’s position on the South Caucasus will be influenced by possible further enlargement, since it has, on other occasions, clearly stated that the countries of the South Caucasus could assume a key role as a bridge between Asia and Europe at the extreme edge of Europe³⁹.

187. It is clear too that the EU wants to improve the prospects of regional stability because it has a number of strategic interests in the region. Firstly, it will be the largest customer for Caspian oil and gas and European companies have taken the lead in most major oil and gas production projects in the region. Secondly, the South Caucasus is the gateway to an alternative route to Asia. The Transport Corridor Europe-Caucasus-Asia (TRACECA) project was specifically designed with the objective of

³⁸ P5_TAPROV (2002)0085, European Parliament resolution on the communication from the Commission to the Council and European Parliament on the European Union’s relations with the South Caucasus under the partnership and cooperation agreements.

³⁹ P5_TAPROV (2002)0085, European Parliament resolution on the communication from the Commission to the Council and European Parliament on the European Union’s relations with the South Caucasus under the partnership and cooperation agreements.

reducing transport costs, in the context of increasing trade development between Europe and Asia⁴⁰. Moreover, since 1990, the project has been the main stimulus for closer cooperation between regional government authorities and for the EU playing a leading part in the region. Thirdly, a strategic objective of the CFSP, as outlined by the EU High Representative, is the extension of the security zone around Europe. Logically, it was thought that the EU should take a stronger interest in the problems of the South Caucasus which include the unresolved conflicts in the region and the potential renewal of hostilities, weak institutions and insufficient development, combined with rampant corruption, and the poor democratic record of the governments in the three countries.

188. The EU also has other security-related interests in the region. These include primarily the containment of “soft” threats, such as smuggling and the drugs trade, organised crime, illegal human trafficking, hazardous materials trafficking and the suppression of terrorist activities and movements across the region. Helping the countries strengthen their ability to control their national borders is obviously an essential element of any such containment policy. The EU is therefore, in particular, providing technical assistance and expertise for the improvement of border management⁴¹. EU security interests also relate to environmental degradation and hazards to the environment, especially the continuing operation of the Medzamor nuclear electricity plant in Armenia’s earthquake zone⁴².

189. This plant cannot be upgraded to modern European standards at reasonable cost. The EU has therefore asked Armenia to fix a firm closure date during the present decade, promising that as soon as this is done, it will mobilise support for a donor conference to help build an alternative.

190. Armenia takes the view that it cannot fix a closure date if there is no certainty about the date the alternative comes on stream, and has pointed out that without a replacement autonomous energy source it would become far too dependent on Russian gas, which would among other things lead to a steep rise in electricity prices. Discussions on this issue are now deadlocked but the EU, supported by a coalition of pro- and anti-nuclear energy activists, is insisting that Armenia take action.

191. It was no surprise therefore when, on 17 and 18 June 2004, the European Council decided to include the countries of the South Caucasus in the European Neighbourhood Policy (ENP). The Council stated that this decision marked a significant step forward in the Union’s engagement with the region. Each country is to be given an equal chance to develop its links with the EU, including through action plans, and will be treated on its individual merits in line with ENP general policy. The Council also invited the Commission, and the SG/HR for issues related to political cooperation and the CFSP, to report on progress made by each country with regard to political and economic reforms.

192. The European Commission is now preparing country reports for presentation in March 2005, including recommendations on whether the countries concerned are ready to draft action plans. The action plans will be agreed jointly with the countries concerned. They will have a minimum duration of three years and be subject to renewal by mutual consent. They will be comprehensive but will also clearly identify a limited number of key priorities, offer incentives for reform and contribute, where possible, to regional cooperation.

193. For the three countries of the South Caucasus, financial and technical assistance in 2005 and 2006 will still be by means of the existing system, mainly the TACIS programme. As from 2007, they are supposed to benefit from a new set of financial assistance programmes in the framework of the European Neighbourhood Policy.

194. As an indication of the EU’s growing interest in the southern Caucasus, the President of the European Commission, Romano Prodi, paid a first ever visit to the region in September 2004. During his visit, President Prodi admitted that earlier EU activities in the region had not always achieved the

⁴⁰ Shipment of goods to Europe via the TRACECA Transport Corridor (East-West) is far more attractive than via other alternative routes. At present, trade turnover between Asia and Europe exceeds US\$ 2 trillion per year with transport costs of up to US\$ 200 billion.

⁴¹ The EU has already provided the Georgian Border Guard with equipment worth € 1 million in 2000 through a Joint Action in the framework of Common Foreign and Security Policy.

⁴² Institute for Security Studies, Institute Note: “Security and Insecurity in the South Caucasus”, Task Force on the Caucasus, Paris, 16 May 2003.

desired impact on public perception. He said that much remained to be done to promote democracy, human rights and the rule of law, to consolidate the foundations for a functioning market economy and in particular solve the conflicts in the region. He noted with disappointment that elections in the southern Caucasus had fallen short of international standards, corruption had persisted and cooperation within the region had been weak. He expressed the hope that the new European Neighbourhood Policy would give fresh impetus to existing forms of cooperation.

APPENDIX I
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APPENDIX II

Programme of the visits to Armenia, Azerbaijan and Georgia made by Mr Zacchera, Rapporteur

The Rapporteur wishes to thank the authorities of the three countries visited and especially the Ambassadors of Italy who organised the meetings and discussions: H.E. Mrs Margherita Maria Costa, Ambassador of Italy to Azerbaijan, H.E. Mr Marco Clemente, Ambassador of Italy to Armenia and H.E. Mr Fabrizio Romano, Ambassador of Italy to Georgia.

Azerbaijan

20 September 2004

Meeting with the Chairman of the Parliamentary Committee for Foreign Affairs and Inter-parliamentary Relations, Mr Samad Seyidov
Meeting with representatives of the different political parties in the Parliament

21 September 2004

Meeting with the Foreign Minister of Azerbaijan, Mr Elmar Mammadyarov
Meeting with the Minister for Defence, Mr Safar Abiyev
Meeting with the Speaker of the National Assembly (Parliament), Mr Murtuz Aleskerov

Georgia

22 September 2004

Meeting with the Vice-President of the Georgian Parliament, Mr Mikhail Machavariani
Meeting with the Leader of the Parliamentary party "Opposition of the Right", Mr David Gamkrelidze
Lunch hosted by the Vice-Chairman of the Parliamentary Committee for Foreign Affairs, Mrs Salome Samadashvili
Meetings with representatives from the Ministry of Defence
Meeting with the Prime Minister of Georgia, Mr Zurab Zhvania

23 September 2004

Meeting with the Minister of State for Relations with the European Union, Mr Tamar Beruchashvili
Meetings with representatives from the Ministry of Foreign Affairs

Armenia

24 September 2004

Meeting with the Minister for Defence, Mr Serzh Sarkisian
Meeting with the Speaker of the Armenian Parliament, Mr Artur Baghdasarian
Meeting with the Deputy Speaker of the Armenian Parliament, Mr Vahagn Hovhanissian
Meeting with the Chairman of the Parliamentary Defence Committee, Mher Shahgeldian
Meeting with the Deputy Minister for Foreign Affairs, Mr Rouben Shugarian
Meeting with the US Ambassador to Armenia, H.E. Mr John M. Evans
Meetings with the resident EU Ambassadors of France, Germany, Greece, Italy, Poland and the United Kingdom) and the representative of the EU Commission in Yerevan
Meeting with the Catholicos of All Armenians, H.H. Garegin II
Meeting with the leaders of the opposition, Mr Stepan Demirchian and Mr Artashes Geghamian.

DRAFT RECOMMENDATION
on stability and security in the South Caucasus

The Assembly,

- (i) Welcoming the present government of Georgia's intention to re-establish the rule of law, reduce corruption and tackle all the other problems which, since independence in 1991, have stood in the way of the establishment of viable state institutions and any realistic prospect of the country's integration into European structures;
- (ii) Aware of the importance for Georgia's long-term stability and security of the central government regaining control over Abkhazia and South Ossetia, but considering that the time may not yet be ripe for major change in those regions and that the restructuring of state institutions and the re-imposition of the rule of law in government-controlled territory must currently take priority;
- (iii) Considering that, meantime, the European Union, the Russian Federation and the United States, together with the OSCE and the United Nations Security Council, should make sustained efforts to prepare the ground for a future comprehensive and peaceful resolution of the conflicts in Abkhazia and Ossetia;
- (iv) Noting that Russia has not yet withdrawn its troops from its remaining military bases in Georgia, as it agreed to do in Istanbul in November 1999, and that it maintains a close relationship with both the Abkhazian and South Ossetian leaderships;
- (v) Considering therefore that Russia, given its insistence on central government authority at home, has a specific responsibility to act in such a way as to help consolidate stability and security in Georgia, thus avoiding the inconsistency of a policy that supports breakaway regions in neighbouring countries;
- (vi) Noting that the EU Special Representative for the South Caucasus might also play a role in promoting good-neighbourly relations between Georgia and Russia;
- (vii) Considering that the government of Armenia has not yet introduced a number of necessary major reforms to establish good governance, transparency and accountability, and the rule of law;
- (viii) Regretting that more than a year after the most recent parliamentary elections, the opposition is still refusing to participate in parliamentary proceedings, also that it has very little opportunity to make its views known to the wider public through the electronic media;
- (ix) Aware that the unsolved problem of Nagorno-Karabakh, and the fact that Armenia occupies some 20% of the territory of Azerbaijan, is dominating Armenia's internal policy and external relations, with largely negative consequences for much-needed social, economic and political development within the country;
- (x) Regretting that for a number of reasons, which include ethnic affinities and the events of history, bilateral relations between Armenia and Turkey appear to be deadlocked, with neither party capable of taking a first courageous step, while an open border between the two countries – conducive to economic development and rebuilding mutual trust – would be in the interest of the whole region;
- (xi) Considering that if Azerbaijan is to achieve stability and balanced economic development in the longer term, its political and socio-economic systems need to be made more transparent and accountable, the more especially in view of the current leadership's preference for the continuation of secular state structures within a Muslim territory;
- (xii) Recognising that Azerbaijan's oil fields are a very important factor in the country's economic development but regretting that only a relatively small section of the population is able to benefit from this new wealth and that the government is not doing enough towards modernising and developing further other sectors of the economy to make sure the country is less vulnerable to crises in the energy sector;

(xiii) Regretting that ten years after the ceasefire agreement the conflict over Nagorno-Karabakh remains unresolved, notwithstanding the many multilateral and bilateral efforts to negotiate a peaceful solution; aware too that this is the main obstacle standing in the way of vital regional cooperation;

(xiv) Considering that the allies of all sides in this unresolved conflict should make every effort to prevent the present stalemate leading to attempts to impose a solution by force and the consequent risk of an arms race that this implies;

(xv) Considering that the leadership of both Armenia and Azerbaijan will have to make determined efforts to prepare public opinion to accept a peaceful settlement with give and take on both sides, leading eventually to enhanced stability and economic development throughout the region;

(xvi) Aware that for the EU, the countries in the South Caucasus have a strategic importance in their own right, as a point of contact between different cultures, as transit countries for energy supplies and as the gateway to Central Asia;

(xvii) Welcoming, therefore, the European Council's decision to include them in the European Neighbourhood Policy, and the European Commission's specific action plans which should offer incentives for reform and contribute to regional cooperation;

(xviii) Considering it is premature to think of a stability pact for the Caucasus region while the conflicts in Abkhazia, South Ossetia and Nagorno-Karabakh remain unresolved;

(xix) Considering that in Armenia, Azerbaijan and Georgia:

- stability would be greatly enhanced by increasing the transparency, effectiveness and accountability of public institutions;
- the fight against corruption should be a priority, as visible success here would do more than anything else to stabilise society and attract foreign investors;
- much remains to be done in order to guarantee the freedom and independence both of the press and the electronic media;
- the establishment of a judicial system in accordance with European standards is essential for the development of civil society and a healthy economy;

(xx) Conscious of the fact that the Treaty on Conventional Forces in Europe is one of the cornerstones of European security and regretting that in both Abkhazia and Nagorno-Karabakh there are large amounts of treaty-limited equipment still unaccounted for;

(xxi) Welcoming the South Caucasus countries' involvement in NATO's Partnership for Peace programme, but regretting that the partners do not always live up to their partnership commitments;

(xxii) Hoping that Russia will come round to the view that it has an interest in stability in the South Caucasus and will be prepared to make a positive contribution to the solution of the conflicts that still exist in the different breakaway regions,

RECOMMENDS THAT THE COUNCIL URGE THE EUROPEAN UNION TO:

1. Keep a strong European multi-dimensional effort, using all the available instruments, at the forefront of its priorities for the region so as to increase the prosperity, stability and security of the South Caucasus as a whole;
2. Make every effort to prevent Armenia and Azerbaijan starting an arms race in an attempt to solve the conflict over Nagorno-Karabakh by force or through the threat of the use of force;
3. Develop an action plan that helps the peoples of both countries understand that relations between neighbours should be based on concepts of cooperation and the peaceful resolution of conflict;

4. Convince the governments of Armenia, Azerbaijan and Georgia that the immediate priorities for government action are the further development of efficient and transparent state institutions and of democratic governance, the establishment of the rule of law and the fight against corruption;
5. Continue to insist on the closure by the end of the present decade of the Medzamor nuclear electricity plant in Armenia, while making every effort to assist with the provision of an alternative energy plant for that country;
6. Include among the specific prerequisites for Turkey's accession the need for that country to take concrete action to promote stability in the South Caucasus, with such action including the progressive opening of its borders with Armenia and moral recognition of the Armenian genocide at the beginning of the 20th century.

AMENDMENTS 1-3⁴⁴

AMENDMENT 1

tabled by Mr Atkinson and several colleagues

1. Delete paragraph 6 of the draft recommendation proper.

Signed: Atkinson, Kilclooney, van der Linden, van Winsen, Letzgus, Dietter, Agramunt, Hooper, Malins, Chapman, Taylor

AMENDMENT 2

tabled by Mr Zacchera

2. Replace paragraph 6 of the draft recommendation proper with the following:

“Encourage Turkey to work constructively for stability in the South Caucasus, *inter alia* through the progressive reopening of its borders with Armenia.”

Signed: Zacchera

AMENDMENT 3

tabled by Mr Lloyd

3. In Amendment 2, at the end of the new paragraph 6 add “whilst reminding Armenia that it must recognise the existing border with Turkey as delineated by the international Kars Agreement of 1921”.

Signed: Lloyd

⁴⁴ See 7th sitting, 30 November 2004 (amendment 1 withdrawn, amendments 2 and 3 adopted).

