Order Code RL30679

Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests

Updated April 16, 2007

Jim Nichol
Specialist in Russian and Eurasian Affairs
Foreign Affairs, Defense, and Trade Division

Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests

Summary

The South Caucasus region has been the most unstable in the former Soviet Union in terms of the numbers, intensity, and length of ethnic and civil conflicts. Other emerging or full-blown security problems include crime, corruption, terrorism, the proliferation of weapons of mass destruction, and narcotics trafficking. The regional governments have worked to bolster their security by combating terrorism, limiting political dissent they view as threatening, revamping their armed forces, and seeking outside assistance and allies.

The roles of neighbors Iran, Russia, and Turkey have been of deep security concern to one or more of the states of the region. These and other major powers, primarily the United States and European Union (EU) members, have pursued differing interests and policies toward the three states. Some officials in Russia view the region as a traditional sphere of influence, while Turkish officials tend to stress common ethnic ties with Azerbaijan and most of Central Asia. EU members are increasingly addressing instability in what they view as a far corner of Europe. Armenia has pursued close ties with Russia and Iran in part to counter Azerbaijan's ties with Turkey, and Georgia and Azerbaijan have stressed ties with the United States in part to bolster their independence vis-a-vis Russia.

The United States has supported democratization, the creation of free markets, conflict resolution, regional cooperation, and the integration of the South Caucasian states into the larger world community. The Administration has backed regional energy and pipeline development that does not give Iran and Russia undue political or economic influence. U.S. aid has been provided to bolster the security and independence of the states. All three regional states have supported the Global War on Terrorism, including by sending troops to assist the U.S.-led coalition in Iraq.

Congress has been at the forefront in supporting U.S. assistance to bolster independence and reforms in the South Caucasus, but debate has continued over the scope, emphasis, and effectiveness of U.S. involvement. Congressional support for the security of Armenia and Nagorno Karabakh (NK; a breakaway region of Azerbaijan mostly populated by ethnic Armenians) led in 1992 to a ban on most U.S. government-to-government aid to Azerbaijan. Congress authorized a presidential waiver to the ban after the terrorist attacks on the United States on September 11, 2001, to facilitate U.S.-Azerbaijan anti-terrorism cooperation. Congressional support for U.S. engagement with the region also was reflected in "Silk Road Strategy" legislation in FY2000 (P.L. 106-113) authorizing greater policy attention and aid for conflict amelioration, humanitarian needs, economic development, transport and communications, border control, democracy, and the creation of civil societies in the South Caucasus and Central Asia. Congress regularly has earmarked foreign aid to Armenia and upheld a South Caucasus funding category to encourage conflict resolution, provide for reconstruction assistance, and facilitate regional economic integration.

Contents

Introduction 1

Overview of U.S. Policy 2

External Security Context 3
Overview 3
The Confluence of Outside Interests 4
Regional Assessments 5

Internal Security Problems and Progress 6
Political and Social Disorder 6
Ethnic Tensions 7
Terrorist Activities 14
Crime and Corruption 17
Illegal Narcotics Production, Use, and Trafficking 17
Non-Proliferation of Weapons of Mass Destruction 18
Economic and Defense Security 18

U.S. Policy and Issues 27
Contributions to Operation Enduring Freedom in Afghanistan 28
Support for Iraqi Freedom Operations 30
U.S. Security and Law Enforcement Assistance 31
Nonproliferation Aid 38
Counter-Narcotics Aid 39
Safety of U.S. Citizens and Investments 40
Issues for the 110th Congress 42
Should the United States Play a Prominent Role in the South Caucasus? 42
What are U.S. Interests in the South Caucasus? 42
What Roles Should Outside Powers Play in the Region? 43
How Significant Are Regional Energy Resources to U.S. Interests? . . 43
What U.S. Security Involvement is Appropriate? 45
Should the United States Try to Foster Democratization? 46

Appendix 1: Selected Players 48
Russia 48
Turkey 53
Iran 54
Others 55

List of Figures

Figure 1. Armenia, Azerbaijan, and Georgia 56

List of Tables

Table 1. Armenia, Azerbaijan, and Georgia: Basic Facts 33
Table 2: Security Funds Budgeted for Armenia, Azerbaijan, and Georgia, FY1992-FY2005 34

Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests

Introduction

The countries of Armenia, Azerbaijan, and Georgia are generally considered as comprising the South Caucasus region, which borders Russia, Turkey, and Iran.[1] This isthmus between the Black and Caspian Seas is an age-old north-south and east-west trade and transport crossroads. The region has been invaded many times, quashing periods of self-rule. These invasions and other contacts have resulted in many and diverse historical, cultural, ethnic, religious, and linguistic links with neighboring peoples. Russian and Soviet tutelage over the region lasted nearly unbroken from the early nineteenth century until the collapse of the Soviet Union in 1991, deeply affecting economic and social development, borders, and nationality relations. Soviet control, in particular, resulted in the isolation of the crossroads region from the rest of the world. After gaining independence, all the states spiraled into economic depression and conflicts began or intensified that threatened their existence, though in recent years the states have appeared more stable. The new states remain weak in comparison to neighboring powers in terms of populations, economies, armed forces, and other capabilities.

This report discusses the internal and external security concerns of the South Caucasus states and U.S. interests and policy toward the region. The ambitions of neighboring powers, particularly Russia, may pose the greatest threat to the stability and sovereignty of the South Caucasus states. It is also possible that internal security problems are greater threats. The states are less able to ameliorate external threats because of internal weaknesses such as political and economic instability, ethnic and regional conflicts, and crime and corruption.

---

[1] For background, see CRS Report RS20812, *Armenia Update*, by Carol Migdalovitz; CRS Report 97-522, *Azerbaijan: Recent Developments and U.S. Interests*, by Jim Nichol; and CRS Report 97-727, *Georgia [Republic]: Recent Developments and U.S. Interests*, by Jim Nichol. See also CRS Report RL33453, *Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests*, by Jim Nichol. The Caspian region encompasses the littoral states Azerbaijan, Russia, Iran, Kazakhstan, and Turkmenistan, but sometimes the region is viewed expansively to include Armenia, Georgia, Uzbekistan, and even Afghanistan. The Black Sea region also has been viewed expansively to include Armenia and Azerbaijan.

Overview of U.S. Policy

U.S. security ties with the South Caucasus states increased in the latter part of the 1990s, as a result of Russia's military activities in Georgia, Russia's first conflict in its breakaway Chechnya region, and an emerging U.S. focus on the transport of Caspian regional energy resources to Western markets. While continuing to envisage a constructive Russian role in the region, the Bush Administration also increasingly has supported broad engagement with the South Caucasian states in support of three inter-related sets of U.S. interests in the region. According to Deputy Assistant Secretary of State Matthew Bryza, "we're not embarrassed to say that energy is a strategic interest. We [also] have ... traditional security interests — meaning fighting terrorism, fighting proliferation, avoiding military conflict, and restoring (or preserving, in some cases) the territorial integrity of the states of the region.... And then we have a third set of interests, in ... democratic and market economic reform ... based on our belief that stability only comes from legitimacy. And legitimacy requires democracy on the political side and prosperity on the economic side."[2]

The United States provided some security assistance to the region prior to the September 11, 2001, terrorist attacks on the United States, particularly to Georgia. This aid and the establishment of military-to-military ties facilitated U.S. anti-terrorism cooperation with these states in the wake of September 11, 2001. The United States obtained quick pledges from the three states to support U.S. and coalition efforts in Afghanistan, including overflight rights and information sharing and Azerbaijan's and Georgia's offers of airbases. The State Department's *Country Reports on Terrorism* has highlighted U.S. support for Azerbaijan's and Georgia's efforts to halt the use of their territories as conduits by international mujahidin and Chechen guerrillas for financial and logistic support for Chechen and other Caucasian terrorists.[3]

The United States has placed growing strategic significance on energy supplies from the Caspian region. The Bush Administration's May 2001 *National Energy Report*, issued by a commission headed by Vice President Cheney and other top officials, concluded that oil exports from the Caspian region could reach millions of barrels per day within several years, and suggested that greater oil production there could not only benefit the economies of the region, but also help mitigate possible world supply disruptions. The Bush Administration's 2003 and 2006 *National Security Strategy of the U.S.A.* also emphasized these themes, stating that U.S. energy security and global prosperity would be strengthened by expanding the numbers of suppliers, including those in the Caspian region.[4]

---

[2] "Caucasus: U.S. Says Aliyev, Kocharyan Must Show 'Political Will,'" *RFE/RL*, June 23, 2006.

[3] U.S. Department of State. *Country Reports on Terrorism*, Apr. 28, 2006.

[4] The White House. *National Energy Policy*, May 17, 2001; *The National Security Strategy of the United States of America*, Apr. 29, 2003; *The National Security Strategy of the United States of America*, Mar. 16, 2006. Unlike the 2003 edition, the 2006 edition does not specifically mention the Caspian region.

Most in Congress have supported U.S. assistance to bolster independence, security, and reforms in the South Caucasus, but questions remain about the suitability, scope, emphasis, and effectiveness of U.S. interest and involvement in the region. Attention has included several hearings and legislation, the latter including regular earmarks of aid for Armenia and sense of Congress provisions on U.S. policy toward the South Caucasus.

Congressional concern in the early 1990s over the Armenian-Azerbaijan conflict contributed in 1992 to the enactment of an aid prohibition for the government of Azerbaijan until the President determines that Azerbaijan has made "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno Karabakh" (NK; a breakaway region of Azerbaijan mostly populated by ethnic Armenians). After September 11, 2001, Congress provided a Presidential waiver of this provision in order to facilitate Azerbaijan's assistance for the war on terrorism, but emphasized its continuing attention to the peaceful resolution of the NK conflict. Beginning with FY1998 appropriations, Congress created a South Caucasus funding category to encourage conflict resolution, provide for reconstruction assistance, and facilitate regional economic integration. In FY1998-FY2001, Congress specified funding for a border and customs security program for Georgia, and some of this aid was used by Georgia to fortify its northern borders with Russia and Chechnya. Congress also has directed humanitarian aid to NK. The United States has committed millions of dollars to facilitate the closure of Russian military bases in Georgia. Congress initiated the Security Assistance Act of 2000 (P.L. 106-280) that authorized nonproliferation, export control, border, anti-terrorism, and other security aid for the South Caucasus states.

Congress has been at the forefront in calling for greater Administration attention to energy issues in the Caspian region as part of a broad engagement policy. This interest included a 1997 congressionally requested report on Administration energy policy.[5] This interest was prominently reflected in the 1999 "Silk Road Strategy Act" authorizing greater policy attention and aid to support conflict amelioration, humanitarian needs, economic development, transport and communications, border controls, democracy, and the creation of civil societies in the South Caucasus and Central Asia (P.L. 106-113). (See also below, *U.S. Policy and Issues*.)

External Security Context

Overview

Major outside players involved in the South Caucasus include the three powers bordering the South Caucasus region (Russia, Turkey, and Iran), the United States, and the European Union (EU). The outside players have both complementary and competing interests and policies toward the three regional states. Some officials in Russia view the region as a traditional sphere of influence, while some in Iran view

---

[5] U.S. State Department. *Caspian Region Energy Development Report to Congress*, Apr. 15, 1997, (required by the conference managers on H.R. 3610, Omnibus Appropriations for FY1997, including Foreign Operations, P.L. 104-208).

Azerbaijan and Armenia as part of a "new Middle East," and Turkish officials tend to stress common ethnic ties with Azerbaijan and most of Central Asia. The EU states have focused on the region as part of the wider "European Neighborhood" and as a stable transport corridor and energy supplier, and the United States has focused on antiterrorism in the post-September 11, 2001, period and on world energy diversity.

Neighboring states have been drawn into the region through threats they perceive to their interests. Regional turmoil also has drawn in international security organizations such as the U.N., Organization for Security and Cooperation in Europe (OSCE), NATO, and the Commonwealth of Independent States (CIS). In the early 1990s, Iran was greatly concerned about Azerbaijanis who called for Iran's ethnic Azerbaijani areas to secede, and it remains intent on suppressing such advocacy among its own ethnic Azerbaijanis. Instability in Chechnya and other areas along Russia's North Caucasus borders has threatened Russia's security and created reasons and pretexts for Russian intervention and the presence of military bases. At the same time, the instability along its southern borders has hindered Russia in building trade and economic relations with the South Caucasus states. Russia has attempted to retain influence in the South Caucasus since September 11, 2001, to counter increased U.S. anti-terrorism assistance to the states. However, Georgia's peaceful 2003 "rose revolution" witnessed closer U.S.-Georgia ties and reduced Russian influence, including the May 2005 Georgia-Russia agreement on the closure of remaining Russian military bases in Georgia (for background, see CRS Report RS21685, *Coup in Georgia*, by Jim Nichol).

Among other players, Western oil and gas firms have played a dominant investment role in Azerbaijan, dwarfing assistance given to the region by outside governments or international financial institutions. All three states have benefitted greatly from remittances by their citizens who work in Russia and elsewhere, but Russia's recent efforts to expel some Georgian workers and restrict labor by non-citizens may threaten these remittances. Armenia's multi-million member world diaspora has provided important aid and expertise, and has publicized Armenia's plight.

The Confluence of Outside Interests. Neighboring and other interested powers, while sometimes competing among themselves for influence in the South Caucasus, also have cooperated in carrying out certain regional goals. All the external powers seek influence over regional energy resources, possibly providing grounds for a common understanding that no one power shall be predominant. Prominent powers Iran, Turkey, and Russia might also come to agree not to foster instability that could spill across their borders. None of these powers officially opposes the territorial integrity of the states of the region, because each has its own separatist problems, but Russia and Iran have followed policies that support separatists in the region.

Iran and Russia have cooperated somewhat in trying to retain regional influence by impeding outside involvement in developing Caspian Sea oil resources or transit routes bypassing their territories. More recently, the two countries have clashed over Caspian Sea border delineation and regional export routes.

Regional Assessments. Dismissing views that the region is a mere playground for outside powers, many observers stress that the regional states' own strategic priorities and assessments of threats and opportunities have influenced their ties with other countries. Given a long history of repeated foreign invasion and occupation, the states are bound to be concerned with regional and international politics. However, regional security cooperation has been slow to develop. Instead, conflict has driven the states and separatist areas to search for outside supporters, often as leverage against each other and creating risks of entanglement for outside powers. The security orientations of the states and regions — whether toward NATO, the CIS, or some other group — have become of great concern to neighboring and other states.

The Armenia-Azerbaijan conflict over NK heavily colors foreign lobbying by these states and by NK. Armenia seeks close security and economic ties with Russia and Iran to counter Azerbaijan's close ties with Turkey. Since Iran has lesser economic and military capabilities, Armenia has relied more on Russia. President Robert Kocharyan stressed in April 2006 that Armenia's top priority in foreign policy was close relations with Russia and that good relations with the United States, NATO, and the European Union do not jeopardize Armenian-Russian ties.[6] Armenia's relations with Turkey are strained. Although Turkey has recognized Armenia's independence, the two countries have not established full diplomatic relations. Armenia has called for diplomatic ties with Turkey to be established without regard to preconditions, but Turkey has called first for Armenia to withdraw from Azerbaijani territory, to drop claims to some Turkish territory, and to end efforts to gain Turkish and international recognition of what Armenians term their national genocide at the hands of the Ottoman Empire in the early 1900s.

Besides its interest in garnering international support for bolstering sovereignty over NK, Azerbaijan has a fundamental interest in links with and the well-being of Iran's multi-million population of ethnic Azerbaijanis. Azerbaijan's agreement with Russia and Kazakhstan over oilfield delineation in the Caspian Sea (see below) seemed aimed at least in part as a defense against border claims by Turkmenistan and Iran.

Georgia appears more concerned about reducing Russian influence and building ties with Turkey and the United States, than about enhancing relations with non-bordering Iran. Georgia's ports on the Black Sea link it to littoral NATO members Turkey, Bulgaria, Romania, and (via the Turkish Straits) to countries around the Mediterranean Sea, providing it with a Western focus.

The U.S. Administration has stressed even-handedness in mediating regional conflicts, though other players have not, harming conflict resolution and regional cooperation. Another view is that the United States is one of several powers in the South Caucasus that, in parallel with the uncompromising stances of opposing ultra-

---

[6] Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), Apr. 24, 2006, Doc. No. CEP-27026.

nationalist elements in the three states, contributes to deadlock rather than the resolution of regional conflicts.[7] (See also below, *Issues for Congress*.)

Internal Security Problems and Progress

The South Caucasus region has been the most unstable in the former Soviet Union in terms of the numbers, intensity, and length of its ethnic and civil conflicts. Other internal security problems include crime, corruption, terrorism, proliferation, and narcotics trafficking. There are few apparent bases for regional cooperation in resolving security problems. The ruling nationalities in the three states are culturally rather insular and harbor various grievances against each other. This is particularly the case between Armenia and Azerbaijan, where discord has led to the virtually complete displacement of ethnic Armenians from Azerbaijan and vice versa. Ethnic relations between Azerbaijanis and Georgians, on the other hand, have been less contentious. The main languages in the three states are mutually unintelligible (also, those who generally consider themselves Georgians — Kartvelians, Mingrelians, and Svans — speak mutually unintelligible languages). Few of the region's borders coincide with ethnic populations. Attempts by territorially-based ethnic minorities to secede are primary security concerns in Georgia and Azerbaijan. Armenia and Azerbaijan view NK's status as a major security concern. The three major secessionist areas — NK, Abkhazia, and South Ossetia — have failed to gain international recognition. NK receives major economic sustenance from Armenia and diaspora Armenians, and Abkhazia and South Ossetia from Russia.

Political and Social Disorder

Azerbaijan and Georgia had been engulfed by political turmoil during the early 1990s, but later in the decade their leaders appeared to consolidate power. In both Azerbaijan and Georgia, new constitutions in 1995 granted the presidents sweeping powers and their ruling parties held sway in the legislatures. During the 2000s, however, these states again entered a period of political instability, because of Azerbaijani President Heydar Aliyev's declining health and Georgian President Eduard Shevardnadze's announcement that he would not seek re-election. Successions offered high drama in both cases. In Georgia, the "rose revolution" resulted in the Shevardnadze's ouster in November 2003 after a tainted legislative election. In Azerbaijan, a violent repression of oppositionists took place in the wake of the handover of power from Heydar Aliyev to his son, Ilkham, in October 2003 after a tainted presidential election.[8]

In contrast to Azerbaijan and Georgia, Armenia appeared somewhat stable until 1998, when then-Armenian President Levon Ter-Petrossian was forced to resign by military and other forces opposed to his rumored concessions to settle the NK conflict. Armenia also was roiled when gunmen with apparently personal grievances assassinated the premier, legislative speaker, and six other politicians in late 1999,

---

[7] Bruno Coppetiers, *Caucasian Regional Studies*, vol. 5, 2000, available online at [http://poli.vub.ac.be/publi/crs/eng/Vol5/].

[8] Malkhaz Matsaberidze, *Central Asia and the Caucasus*, no. 2, Apr. 30, 2005.

but a new speaker and premier were chosen peacefully. Robert Kocharyan, elected president in 1998, was re-elected in a contentious race in February 2003. Oppositionists in Armenia in 2004 stepped up their protests against the legitimacy of Kocharyan's re-election and some were arrested. The opposition claimed that it had little input into drafting constitutional changes that were approved in a popular referendum in November 2005. Relations between the government and opposition remain strained. Legislative elections are scheduled for May 2007 and a presidential election for 2008. Kocharyan is to step down in line with a two-term presidential limit, which heightens the political stakes of these upcoming elections. Some observers warn of the risk of a political succession crisis if electoral processes are viewed as flawed by many Armenians.

The serious decline in the standard of living in all three South Caucasus states during the early 1990s affected their security by harming the health of the population, setting back economic recovery. Although Armenia reportedly has resettled most of the refugees who fled Azerbaijan after 1988, Azerbaijan has moved more slowly to improve housing conditions for refugees from NK and surrounding areas. Many people in the regional states remain economically disadvantaged, with a low quality of life.[9] The widespread poverty has contributed to the emigration or labor migration of millions of citizens from Armenia, Azerbaijan, and Georgia.

Azerbaijan is beginning to gain sizable revenues from oil exports, but some observers are concerned that the ruling elite will not use such revenues to broadly raise living standards for the poor. The IMF in late 2006 called on the Azerbaijani government to accelerate social welfare spending to alleviate poverty among some 45% of the population, but it also raised concerns that rising inflation jeopardized poverty reduction efforts. The IMF praised Armenia for making progress in reducing poverty rates from 56% in 1999 to 39% in 2004. In Georgia, the IMF expressed some disappointment that efforts to alleviate poverty among some 51% of the population had not progressed as hoped. Georgia pledged to introduce targeted benefits in 2007 for those in extreme poverty. In all these countries, the IMF has urged a more equitable distribution of income to increase popular support for economic reforms.[10]

Ethnic Tensions. Regional analyst Elkhan Nuriyev has lamented that the South Caucasus states, because of ethnic conflicts, have not yet been able to fully

---

[9] U.N. World Health Organization. *The World Health Report 2005*, Statistical Annex, Apr. 7, 2005; U.N. Development Program. *Human Development Report 2004*, July 15, 2004. According to the quality of life index (which includes measures of GDP per capita, life expectancy, school enrolment, and literacy), Armenia ranks 82st, Azerbaijan 91st, and Georgia 97th among 151 world countries, placing them among other developing countries with a "medium" quality of life but far below other top-ranked European states.

[10] International Monetary Fund. Middle East and Central Asia Department. *Armenia: 2006 Article IV Consultation and Third Review Under the Poverty Reduction and Growth Facility - Staff Report*, Dec. 11, 2006; *IMF Executive Board Concludes 2005 Article IV Consultation with the Republic of Azerbaijan*, Apr. 25, 2006; *Azerbaijan: IMF Staff Visit Concluding Statement*, Sept. 6, 2006; *Georgia: 2006 Article IV Consultation, Fifth Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria - Staff Report*, Mar. 9, 2007.

partake in peace, stability, and economic development since gaining independence in 1991.[11] The countries are faced with on-going budgetary burdens of arms races and caring for refugees and displaced persons. Other costs of ethnic conflicts in the South Caucasus include the threat to bordering states of widening conflict and the limited ability of the region or outside states fully to exploit energy resources or trade and transport networks. Some development advocates call for regional populations to repudiate exclusionary ultranationalism and for outside powers to cease trying to exploit such views.

Azerbaijan has faced dissension by several ethnic groups, including Armenians in NK, Lezgins residing in the north, and Talysh residing in the south. Some ethnic Lezgins have called for seceding and joining kindred Lezgins residing in Russia's Dagestan, and formed a separatist group called Sadval, while some Talysh have called for autonomy and have lobbied for the legalization of a political party. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in about 15,000 casualties and hundreds of thousands of refugees and displaced persons in Armenia and Azerbaijan. The U.N. High Commissioner for Refugees (UNHCR) reported that at the end of 2005 there were still about 581,500 people considered refugees or displaced persons in Azerbaijan and 219,550 in Armenia.[12] Armenia has granted citizenship and acted to permanently house many of the ethnic Armenians who fled Azerbaijan.

Georgia's southern Ajaria region, populated by Islamic ethnic Georgians, was substantially free from central control until 2004. Some residents of Georgia's southern district of Javakheti, populated mostly by ethnic Armenians, also have called for autonomy. Repressive efforts by Georgian authorities triggered conflict in 1990 in Georgia's north-central South Ossetian region, reportedly leading to about 1,500 deaths and tens of thousands of displaced persons, mostly ethnic Georgians. Beginning in 1992, separatist fighting involving Georgia's north-western Abkhaz region has resulted in about 10,000 deaths and hundreds of thousands of displaced persons, mostly ethnic Georgians. UNHCR has reported that at the end of 2005 there were about 234,000 displaced persons in Georgia.

Although ceasefires have been declared for the three major separatist conflicts — those involving Abkhazia, South Ossetia, and NK — none yet have moved beyond the fragile stage of confidence-building. The ceasefires are provisional and subject to intermittent violations.

Azerbaijan's Nagorno Karabakh Region. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in about 15,000 casualties and hundreds of thousands of refugees and displaced persons in Armenia and Azerbaijan. The non-governmental International Crisis Group estimates that about 13% to 14% of Azerbaijan's territory, including NK, is controlled by NK Armenian forces (the

---

[11] Elkhan Nuriyev, in Gary Bertsch, et al., eds., *Crossroads and Conflict*, New York, Routledge, 2000, p. 151.

[12] U.N. High Commissioner for Refugees. *2005 Global Refugee Trends*, June 2006.

CIA World Factbook estimates about 16%).[13] The OSCE's "Minsk Group" of concerned member-states began talks in 1992. A U.S. presidential envoy was appointed to these talks. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). The United States, France, and Russia co-chair meetings of the Minsk Group.

The Minsk Group reportedly has presented four proposals as a framework for talks, but a peace settlement has proved elusive. In late 1997, a new step-by-step peace proposal was recognized by the presidents of Azerbaijan and Armenia as a basis for further discussion. This led to protests in both countries and to the forced resignation of Armenian President Levon Ter-Petrosyan in early 1998. Heydar Aliyev in early 2001 stated that he had "turned down" and refused to discuss a late 1998 Minsk Group proposal embracing elements of a comprehensive settlement.[14] The assassination of Armenian political leaders in late 1999 set back the peace process. In April 2001, the two presidents attended talks in Key West, Florida, and then met with President Bush, highlighting early Administration interest in a settlement.

In January 2003, Armenia's President, Robert Kocharyan, proclaimed that its peace policy rested on three pillars: a "horizontal" — instead of hierarchical — relationship between NK and Azerbaijan; a secure land corridor between Armenia and NK; and security guarantees for NK's populace.[15] Armenian Foreign Minister Vardan Oskanyan in October 2004 stated that the continued occupation of NK border areas was necessary leverage to convince Azerbaijan to agree to NK's status as a "common state."[16] Since 2005, officials in both countries have reported negotiations on a fourth "hybrid" peace plan to return most NK border areas prior to a referendum in NK on its status.

The Minsk Group co-chairs issued a statement and made other remarks in April-July 2006 that revealed some of their proposals for a settlement. These include the phased "redeployment of Armenian troops from Azerbaijani territories around Nagorno-Karabakh, with special modalities for Kelbajar and Lachin districts (including a corridor between Armenia and NK); demilitarization of those territories; and a referendum or population vote (at a date and in a manner to be decided ...) to determine the final legal status of NK." International peacekeepers also would be deployed in the conflict area.[17]

---

[13] International Crisis Group. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, Sept. 14, 2005. Central Intelligence Agency. *The World Factbook*. *Azerbaijan*, [http://www.odci.gov].

[14] *CEDR*, Feb. 27, 2001, Doc. No CEP-262.

[15] *CEDR*, Jan. 17, 2003, Doc. No. CEP-338.

[16] *CEDR*, Oct. 13, 2004, Doc. No. CEP-11.

[17] OSCE. *Statement by the Minsk Group Co-Chairs*, July 3, 2006.

At peace talks in Bucharest on June 4-5, 2006, the presidents of Armenia and Azerbaijan reportedly agreed on some basic principles but failed to reach a settlement. In statements issued after this meeting, the Minsk Group co-chairs raised concerns that the two presidents lacked the "political will" to make decisions about a settlement and stated that they would wind down their "shuttle diplomacy" until the two presidents demonstrated political will.[18] Disagreeing with the Minsk Group settlement proposals, President Aliyev in early July 2006 stated that the withdrawal of NK forces from occupied territories (including NK itself) must be followed by the return of Azerbaijani displaced persons. Then, he averred, Azerbaijani (including NK) citizens would discuss the status of NK, but its secession from Azerbaijan was forbidden.[19]

At a Minsk Group-sponsored meeting of the Armenian and Azerbaijani foreign ministers in Paris on October 24, 2006, Armenian Foreign Minister Oskanyan proposed that all occupied territories around NK (including Kelbajar and Lachin) could be returned if there was clarity on the plan for a referendum to be held in NK on its status. Until the referendum, an interim status for NK is to be agreed upon. Although the referendum must deal with NK's independence from Azerbaijan as one choice, he stated on October 26 that he considered an NK ultimately independent from Armenia as artificial and not viable. Instead, NK would be persuaded eventually to "fully integrate" with Armenia.[20]

On October 27, 2006, Aliyev stated that Azerbaijan proposes that NK have a high level of autonomy during the interim period before a referendum. He argued that NK should accept Azerbaijan's guarantees of political autonomy overseen by international peacekeepers. Otherwise, he warned, Azerbaijan has the sovereign right, as the United Kingdom did in regard to the Falkland Islands, to "retake our territory." He also asserted that the international community would not recognize NK even if independence was approved by a referendum, if Azerbaijan opposed this referendum outcome.[21]

At a meeting in Moscow between the Armenian and Azerbaijani foreign ministers on January 23, 2007, the Azerbaijani foreign minister reportedly termed the negotiations on a settlement of the NK conflict "intensive" and said that they concerned "the last principle of the settlement." Armenian sources allegedly reported

---

[18] In June 2006, the duties of the U.S. co-chair were transferred to the Deputy Assistant Secretary of State. On the proposals, see *RFE/RL*, June 23, 2006; U.S. Embassy in Armenia, *Statement by the Minsk Group Co-Chairs to the OSCE Permanent Council*, June 22, 2006; and *Statement by the OSCE Minsk Group Co-Chairs*, July 3, 2006. According to polls conducted by the Armenian Sociological Association and the Georgian Institute for Polling and Marketing in July 2006, the population of Armenia is overwhelmingly opposed to an autonomous status for NK within Azerbaijan, and the population of Azerbaijan is overwhelmingly opposed to the independence of NK from Azerbaijan.

[19] Leyla Tavshanoglu, Interview with the President of Azerbaijan, *Cumhuriyet*, July 4, 2006.

[20] CRS Interview, Oct. 26, 2006. See also Fariz Ismailzade, *Eurasia Daily Monitor*, Oct. 31, 2006.

[21] CRS Interview, Oct. 27, 2006.

little progress. The Minsk Group co-chairs plan to hold discussions with the presidents of Armenia and Azerbaijan.

Georgia' South Ossetia Region. In 1989, the region lobbied for joining its territory with North Ossetia in Russia or for independence. Repressive efforts by former Georgian President Gamsakhurdia triggered conflict in 1990, reportedly contributing to an estimated 2,000-4,000 deaths and the displacement of tens of thousands of people. In June 1992, Russia brokered a cease-fire, and Russian, Georgian, and Ossetian "peacekeeping" units have set up base camps in a security zone around Tskhinvali, South Ossetia. Reportedly, the units total around 1,100 troops, including about 530 Russians, a 300-member North Ossetian brigade (which is actually recruited locally and staffed by South Ossetians and headed by a North Ossetian), and about 300 Georgians. OSCE monitors do most of the patrolling. A Joint Control Commission composed of Russian, Georgian, and North and South Ossetian emissaries promotes a settlement of the conflict, with the OSCE as facilitator. According to some estimates, some 25,000 ethnic Ossetians and 20,000 ethnic Georgians reside in a region that, according to the 1989 Soviet census, at that time contained over 98,000 residents.

Saakashvili tightened border controls in 2004, ostensibly to stanch smuggling, which is a major source of income for the Ossetians. He also reportedly sent several hundred police, military, and intelligence personnel into the region. Georgia maintained that it was only bolstering its peacekeeping contingent up to the limit of 500 troops, as permitted by the cease-fire agreement, and stated that these peacekeepers were preventing smuggling and guarding ethnic Georgian villages. Following inconclusive clashes, both sides by late 2004 had pulled back most undeclared forces.

Saakashvili announced a new peace plan for South Ossetia in 2005 that offered substantial autonomy and the creation of an international fund to facilitate repatriation and rebuilding. South Ossetian "president" Eduard Kokoiti rejected the plan, asserting in October 2005 that "we [South Ossetians] are citizens of Russia."[22] The plan has received U.S. and OSCE backing. In December 2005, South Ossetia issued its own plan, which called for demilitarization, confidence-building measures, and reconstruction aid. At a meeting of the Joint Control Commission (co-chaired by the Georgian, Russian, North Ossetian, and South Ossetian sides, with the OSCE as a facilitator) on May 11-12, 2006, the parties agreed to try to merge the two peace plans and approved a list of rebuilding projects for an OSCE-sponsored donors' conference in June 2006. The conference garnered pledges of over $10 million for economic reconstruction in the conflict area, including $2 million from the United

---

[22] *CEDR*, Oct. 7, 2005, Doc. No. CEP-15001. Protesting against the extension of Russian citizenship to most South Ossetians and Russia's pledges to protect the interests of these citizens, Deputy Chief of the U.S. Mission to the OSCE, Kyle Scott, stated that the moves "call into question [Russia's] stated support for Georgia's territorial integrity and commitment to support a peaceful resolution of the South Ossetia conflict based on that principle." U.S. Department of State. The Washington File. *U.S. Questions Russian Support for Georgian Territorial Integrity: Calls on Russia, South Ossetians to Reciprocate Georgian Overtures*, Mar. 3, 2006.

States. A Steering Committee composed by the sides to the conflict and donors met in October 2006 to discuss project implementation.

The U.S. Mission to the OSCE issued a statement on August 11, 2006, that urged "meaningful progress" on the peace plan endorsed by the OSCE. It also called for international monitoring of the Roki Tunnel (separating Russia from South Ossetia), a permanent checkpoint at Didi Gupta (a South Ossetian village near Roki on a transport route), and an increase in the number of OSCE monitors in the region. However, at a JCC meeting on August 17-18, 2006, in Moscow, the Ossetian and Russian emissaries reportedly balked at forming a working group under the JCC to work on the peace plan. Kokoiti a few days later announced that a popular referendum would be held in the region on November 12, 2006, to reaffirm its "independence" from Georgia. After a planned JCC meeting in mid-September fell through, the Georgian state minister argued that the JCC format "was no longer of any use."[23] Emissaries at a JCC meeting on October 12-13, 2006, reportedly failed to agree on a communique. Georgia again insisted on changing the format at a JCC meeting on December 27, 2006, which ended with no plans for a future meeting

South Ossetia's separatists reported that 95% of 55,000 registered voters turned out and that 99% approved the referendum on "independence." In a separate vote, 96% re-elected Kokoiti. The OSCE and U.S. State Department declined to recognize these votes. In "alternative" voting among ethnic Georgians in South Ossetia (and those displaced from South Ossetia) and other South Ossetians, the pro-Georgian Dmitry Sanakoyev allegedly was elected governor, and a referendum was approved supporting Georgia's territorial integrity. Sanakoyev demands representation on the JCC, which Kokoiti opposes. The hiatus in JCC meetings ended with a get-together session in Istanbul on March 21, 2007. On March 26, 2007, Saakashvili proposed a new peace plan for South Ossetia that involved creating administrative districts throughout the region ostensibly under Sanakoyev's authority, which would be represented by an emissary at JCC or alternative peace talks.

Georgia's Abkhazia Region. In July 1992, Abkhazia's legislature declared the region's effective independence, prompting an attack by Georgian national guardsmen. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a Eurasian state, termed UNOMIG, to help the parties reach a settlement. Russian and North Caucasian "volunteers" (who reportedly made up the bulk of Abkhaz separatist forces) routed Georgian forces. Georgia and Abkhazia agreed in April 1994 on a framework for a political settlement and the return of refugees. A Quadripartite Commission (QC) was set up to discuss repatriation and Russian troops (acting as CIS "peacekeepers") were deployed along the Inguri River dividing Abkhazia from the rest of Georgia. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians. In late 1997, the sides agreed to set up a Coordinating Council (CC) to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. The QC meets periodically and addresses grievances not considered by the CC.

---

[23] *CEDR*, Sept. 15, 2006, Doc. No. CEP-950088.

Abkhazia had resisted holding CC meetings since 2001, but the two sides finally met on May 15, 2006, and the Abkhaz "foreign minister" proffered a new peace plan. Georgia found the plan "interesting" but rejected it, claiming that the plan was in effect a declaration of independence. In late May 2006, Georgia proffered an alternative peace plan, which Abkhazia in turn reportedly rejected as unconstructive.[24]

The Deputy Assistant Secretary of State works with the Special Representative of the U.N. Secretary General and other Friends of Georgia (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a settlement. A "New Friends of Georgia" group was formed by Bulgaria, Estonia, Latvia, Lithuania, Moldova, Poland, Romania, and Ukraine in 2005 to advocate increased EU and NATO attention to a settlement. Sticking points have included Georgia's demand that displaced persons be allowed to return to Abkhazia, after which an agreement on autonomy for Abkhazia would be negotiated. The Abkhazians have insisted upon recognition of their independence as a precondition to large-scale repatriation. Since 2002, Abkhaz authorities have refused to consider a draft negotiating document prepared by the U.N. and the Friends of Georgia. In the UNSC, Russia in late January 2006 renounced the draft negotiating document and agreed to only a two-month extension to UNOMIG's mandate, raising concerns among some observers that Russia might openly endorse Abkhaz "self-determination." The UNSC in March 2006, however, agreed to a normal six-month extension.

In October 2006, the UNSC approved a resolution extending the UNOMIG mandate for another six months, until the end of April 2007. The Security Council criticized Georgia for introducing military forces into the Kodori Gorge area of Abkhazia (see below) in violation of cease-fire accords and for other "militant rhetoric and provocative actions" and called on it to abide by the accords. Some violations by Abkhaz forces were also criticized. The UNSC stressed the "important" and "stabilizing" role played by Russian peacekeepers and UNOMIG.[25] Some Georgian officials viewed the resolution as negating their calls for a wider international composition of the peacekeeping forces. In January 2007, the U.N. Secretary General reported that Georgia appeared not to have heavy military weaponry in the Gorge. The UNSC appeared to concur with this assessment in April 2007 and renewed UNOMIG's mandate for another six months.

The Kodori Gorge. In July 2006, a warlord in the Kodori Gorge area of Abkhazia, where many ethnic Svans reside, foreswore his nominal allegiance to the Georgian government. The Georgian government quickly sent forces to the area and defeated the warlord's militia. Saakashvili asserted that the action marked progress in Georgia's efforts to re-establish its authority throughout Abkhazia, and he directed that the Abkhaz "government-in-exile" make the Gorge its home. Georgia claims that the bulk of its troops have left the Gorge, leaving only construction platoons, but

---

[24] *U.N. Council on Resolving Abkhazia Dispute Meets for First Time in 5 Years*, Associated Press, May 15, 2006; "Georgian Peace Plan Unacceptable: Abkhaz Foreign Minister," *Interfax*, June 1, 2006.

[25] U.N. Security Council. *Resolution 1716 (2006), Adopted by the Security Council at its 5549th meeting*, Oct. 13, 2006.

Abkhazia asserts that many troops are still present, in violation of the ceasefire agreement. The Abkhaz side broke off revived meetings of the CC (which had been taking place almost every week) at the beginning of August 2006, and all talks were suspended in October. It has called for Georgia to remove the government representatives and alleged military forces. The U.S. Mission to the OSCE issued a statement in August 2006 that supported demilitarizing the Kodori Gorge and sending international civilian police to Abkhazia and called on the government of Georgia and the Abkhaz de facto authorities to show restraint and to abide by the 1994 cease-fire agreement. At a meeting hosted by the Friends of Georgia in Geneva on February 13, 2007, the Abkhaz de facto authorities reportedly reiterated that they would not resume talks with Georgia until their conditions were addressed. On the night of March 11-12, 2007, unknown helicopters strafed several villages and the pro-Georgian Abkhaz government building in the Kodori Gorge. Georgia claimed that the helicopters came from Russia and that the incident demonstrated that Russian "peacekeepers" are not impartial and should be replaced by a wider international force.

Terrorist Activities. South Caucasus states and breakaway regions have alleged the existence of various terrorist groups that pursue mixes of political, ethnic, and religious goals, with such allegations having increased greatly after September 11, 2001, and the intensification of international anti-terrorism efforts. Armenia accuses Azerbaijan of sponsoring terrorism, and Georgia accuses Abkhazia, and vice versa. Abkhazian paramilitaries allegedly have terrorized ethnic Georgians attempting to resettle in the Gali area of Abkhazia, and have been countered by Georgian groups. Georgian militias reportedly were active in Georgia's efforts in 2004 to regain control over South Ossetia. In reaction, Russian defense and security officers allegedly assisted several hundred irregulars from Abkhazia, Transnistria, and Russia to enter the region. South Caucasus governments sometimes have accused opposition political parties of terrorism and banned and jailed their followers. However, some of the so-called terrorist violence has been hard to attribute to specific groups or agents that aim to destabilize the governments. Other sources of violence, such as personal or clan grievances, economic-based crime, or mob actions, are also prominent.

Islamic extremism has appeared a lesser threat in Azerbaijan than in the Central Asian states, although some observers warn that the threat may be growing as unemployed young people are attracted to radical missionaries. The Azerbaijani government has moved against the indigenous terrorist group Jayshullah and the clandestine Islamic Party, charging the latter's members with receiving terrorist training in Iran.[26] In mid-2006, Azerbaijani officials raised concerns that Islamic extremists might target the country, after al Qaeda member Ayman al-Zawahiri stated

---

[26] U.S. State Department, *Country Reports on Terrorism 2004*, Apr. 27, 2005; Tadeusz Swietochowski, *World Policy Journal*, Fall 2002, pp. 69-76. Many members of Jayshullah (Warriors of Islam; members had been trained in Chechnya and had set up a training camp in Azerbaijan) were arrested in 2000 and thirteen were convicted in 2001 for planning or carrying out various terrorist acts. Other young members of the group were let off. Azerbaijani authorities alleged that some Warriors of Islam were Lezgin separatists.

that Azerbaijan and other Muslim countries should be punished for "aligning themselves with the infidels."[27]

According to the State Department's *Country Reports on Terrorism*, until Russia launched its incursion into Chechnya in August-September 1999, Azerbaijan had served as a conduit for international mujahidin, some of whom supported the separatist leadership in Chechnya. After Russian security forces attacked Chechnya, however, Azerbaijan reinforced border controls to discourage foreign mujahidin from operating within Azerbaijan. The State Department reports that Azerbaijan stepped up such interdiction efforts after September 11, 2001, and "had some success in suppressing these activities."[28]

Reportedly, more than 100 individuals have been convicted in Azerbaijan in recent years for supporting Chechen separatism. In December 2003, Azerbaijan sentenced the leaders of Revival of Islamic Heritage, a Kuwaiti humanitarian organization, on charges of recruiting Azerbaijanis and sending them to the Pankisi Gorge for paramilitary training to fight in Chechnya against Russia. In February 2005, six individuals who called themselves "Al Qaeda Kavkaz" received sentences of 3-14 years on charges of planning terrorist attacks in Baku. The group was apprehended with arms and propaganda materials and allegedly had attempted to recruit female suicide bombers. In December, the government extradited two members of the Kongra-Gel/PKK to Turkey.[29] In April 2006, fifteen alleged Al Qaeda members apprehended in Azerbaijan — who were citizens of Azerbaijan, Russia, Turkey, and Yemen and had received training in the Pankisi Gorge for fighting in Chechnya — were sentenced to 5 to 10 years in prison.[30] Azerbaijan's head of the State Committee for Work with Religious Structures warned in mid-2006 that Al Qaeda-linked Chechen rebels continued activities in Azerbaijan, that an Iranian Shiite extremist group named "72 Martyrs" was operating in southern Azerbaijan, and that increasing numbers of other Islamic extremists were entering the country to recruit members and set up cells.[31] An imam belonging to the Board of the Muslims of the Caucasus appeared to back some of these claims in early 2007 by asserting that Wahhabism was growing in northern areas of Azerbaijan bordering

---

[27] *CEDR*, June 30, 2006, Doc. No. CEP-950096.

[28] U.S. Department of State. *Country Reports on Terrorism 2005*. Azerbaijan also had served as a conduit for some terrorist financing, as evidenced by fund transfers to Azerbaijan by the bin Laden-associated organization Benevolence International. *Money Laundering Alert*, March 2003. Azerbaijani media have reported that Turkey is concerned that the Kurdistan Workers' Party (PKK) receives some funds and arms via Azerbaijan. *CEDR*, June 30, 2006, Doc. No. CEP-950224.

[29] U.S. State Department, *Country Reports on Terrorism 2005*, Apr. 28, 2006, pp. 88-89.

[30] *CEDR*, Apr. 19, 2006, Doc. No. CEP-950146; Apr. 25, 2006, Doc. No. CEP-950069; Apr. 27, 2006, Doc. No. CEP-381001; *Middle East Quarterly*, Summer 2005.

[31] *CEDR*, June 29, 2006, Doc. No. CEF-26001. Haci Ilqar Ibrahimoglu, head of the Center for the Protection of Freedom of Religion and Conscience (and former imam of the Juma Mosque), has argued that the government's warnings of increasing Islamic extremism in Azerbaijan are overblown, but could become reality if the government fails to implement democratic and economic reforms. *CEDR*, June 23, 2006, Doc. No. CEP-950182.

Chechnya and Russia's Dagestan republic (region). The National Security Ministry, however, claimed that there are no terrorist training camps in Azerbaijan.[32]

In Georgia, Zviadists (supporters of former President Zviad Gamsakhurdia) in 1998 launched an assassination attempt against then-President Shevardnadze and an abortive military insurrection aimed at his overthrow, but a government reconciliation campaign has since contributed to quiescence by this group. Georgian officials have alleged that a supporter of ousted Ajarian leader Aslan Abashidze was behind an abortive hand-grenade attack during the May 2005 visit of President Bush to Tbilisi.

The State Department's *Patterns of Global Terrorism* for 2002 stated that Georgia also contended with "third-country terrorists with links to al Qaeda" who used Georgia as a conduit for financial and logistic support for the mujahidin and Chechen fighters." Georgia, however, appeared unwilling and unable to prevent mujahidin activities until prodded and supported by the United States and Russia after September 11, 2001.

U.S. concerns over the presence of international terrorists in Georgia's Pankisi Gorge were spurred when, reportedly during the September 11, 2001, attacks, a phone call was made from a bin Laden operative in Afghanistan to Georgia announcing the success of the first phase of attacks. President Bush in late February 2002 explained the U.S. decision to launch a military training program in Georgia (see below) by emphasizing that there were some al Qaeda in the Gorge.

Russian demands that Georgian forces combat international terrorists based in the Gorge led to the launch of Georgian police and security operations in the Gorge in August 2002. Concerns about the renewal of terrorist operations in the area in the springtime, however, led the Georgian government in March 2003 to send in extra military and police forces to prevent Chechen rebels from re-entering. In late 2004, Russia claimed that some terrorists remained in the gorge but still refused to agree to renew the mandate of OSCE personnel who had been monitoring the Georgian-Russian border area since early 2000. Although they had been effective in publicizing border violations and were viewed by many commentators as discouraging border incursions, Russia claimed that they had been ineffective. The OSCE subsequently launched a program to help train some Georgian border guards.

According to *Country Reports on Terrorism 2005*, Georgian police discovered and removed hidden weapon caches in the Pankisi Gorge during the year and otherwise better secured the area against terrorist acts or transit. However, Georgia continued to be used to a limited degree as a transit state for weapons and money, including because of corruption at border checkpoints, according to the State Department. In January 2007, the Russian Federal Security Service's Border Authority alleged that some Chechen "militants" remained in the Pankisi Gorge but

---

[32] *CEDR*, Feb. 18, 2007, Doc. No. CEP-950047; Jan. 24, 2007, Doc. No. CEP-950178.

that they "have not tried to trespass the Georgian-Russian border from Pankisi in the past three years," in part because Russia had set up dozens of border guard posts.[33]

Crime and Corruption. Crime and corruption are serious threats to democratization and economic growth in all the states. The increasing amount of foreign currency entering the states as the result of foreign oil and natural gas investments, drug trafficking, and other means, the low pay of most government bureaucrats, and inadequate laws and norms, are conducive to the growth of corruption. Also, the weakness of the rule of law permits the Soviet-era political patronage and spoils system to continue. Saakashvili has pledged to combat corruption, firing many policemen and emphasizing merit-based examinations for college entrance, but overall results have been mixed. According to the private organization Transparency International (TI), all three South Caucasus countries in 2005 ranked among those where "rampant corruption ... poses a grave threat to institutions as well as to social and political stability." In its latest corruption perceptions index, TI ranked Armenia and Georgia as somewhat less corrupt than Azerbaijan. Transparency International, the World Bank, and the EBRD have perceived some reform progress in Armenia in reducing corruption in recent years, including by simplifying licensing procedures, revamping the civil service, and introducing a new criminal code.[34]

Illegal Narcotics Production, Use, and Trafficking. According to the State Department's *International Narcotics Control Strategy Report*, none of the South Caucasian states is a major drug producer, but Azerbaijan is a transit route for drugs from Afghanistan that enter from Iran or Central Asia and are smuggled to markets in Russia, Turkey, and Europe.[35] Armenia's borders with Azerbaijan and Turkey remain closed due to the NK conflict, but when these borders open, drug transiting could increase significantly, the State Department warns. Drug consumption and cultivation are increasing in Azerbaijan. Border control capabilities on the border with Iran and Azerbaijan's maritime border units are inadequate to prevent narcotics smuggling, and the police lack counter-narcotics equipment and training, according to the *Report*.[36]

Georgia does not appear to be a route for large-scale drug smuggling, but could be vulnerable to increased trafficking because of lack of control over parts of its territory and its borders, some of which are under separatist control. Drugs from Asia that transit Georgia are smuggled out through land routes in Abkhazia and Black Sea

---

[33] U.S. Department of State. *Country Reports on Terrorism 2005*, Apr. 2006; *ITAR-TASS*, Jan. 26, 2007.

[34] U.S. Department of State. Bureau of Economic and Business Affairs. *Investment Climate Statements*, 2002-2005; Transparency International, *Annual Report 2005*, July 18, 2006, pp. 16-17; *Corruption Perceptions Index 2006*, Nov. 6, 2006.

[35] The State Department. Bureau for International Narcotics and Law Enforcement Affairs. *International Narcotics Control Strategy Report*, vol. 1, Mar. 1, 2007.

[36] Azerbaijani officials increasingly have asserted that most drugs are entering the country from Iran. *CEDR*, July 27, 2005, Doc. No. CEP-27075; Feb. 17, 2007, Doc. No. CEP-950066; Mar. 1, 2007, Doc. No. CEP-950340; Mar. 7, 2007, Doc. No. CEP-950339.

ports in Ajaria. Previously, Chechen and al Qaeda terrorists that were based in the Pankisi Gorge area of northeast Georgia at least partly financed their activities by drug-trafficking. This trafficking has been reduced, if not eliminated, during Georgian counter-terrorism actions in the Gorge in recent years. Georgia's border control forces are capable of controlling drug trafficking and appear motivated, according to the *Report*.

Non-Proliferation of Weapons of Mass Destruction. The South Caucasus states have only in recent years begun implementing effective export control regimes to prevent the proliferation of weapons of mass destruction and associated technologies.[37] There are not as many nuclear fuel cycle-related facilities in the South Caucasus as elsewhere in the former Soviet Union, but there are various nuclear research facilities and an operating nuclear power reactor in Armenia. Virtually all of the facilities lack adequate security systems such as cameras and computerized accounting to safeguard medical and industrial nuclear materials and wastes. Some radioactive materials that were inadequately documented during the Soviet era have been discovered. Border and customs officials have halted some smuggling of WMD materials, and are receiving increasing levels of U.S. and other international training and other assistance to bolster their effectiveness (see also below, *Security Assistance*).[38]

Economic and Defense Security. The South Caucasus states have worked to bolster their economic and defense capabilities by seeking assistance from Western donors such as the United States, by seeking private investment, by joining international organizations, and by cooperating with each other to limited degrees. Georgia was the first state in the region to achieve World Trade Organization membership in June 2000, followed by Armenia in December 2002. Azerbaijan has encouraged foreign firms and governments to become involved in energy development to ensure the widest possible international interest in Azerbaijan's independence and to attempt to influence attitudes toward the NK conflict.

---

[37] *NIS Nuclear Profiles Database*. Center for Nonproliferation Studies, Monterey Institute of International Studies. Armenia has the most developed export control system on paper. The State Department's *Country Reports on Terrorism 2004* states that Armenian border guards in 2004 seized 42 grams of non-weapons-grade radioactive material, demonstrating that "they are capable of detecting and interdicting nuclear material."

[38] *NIS Trafficking Database*. Center for Nonproliferation Studies, Monterey Institute of International Studies. Among prominent smuggling attempts, Azerbaijani border troops halted a shipment of Russian missile parts bound for Iran in Mar. 1998 and about one kilogram of uranium 235 allegedly bound for Iran in April 2000. In early 2002, Russian and Georgian media reported that two of eight Soviet-era small nuclear generators containing strontium-90 were missing in Georgia. Georgian and Russian authorities on Jan. 25, 2007, verified media reports that Georgian security in cooperation with U.S. agencies in early 2006 had apprehended a Russian citizen who was attempting to smuggle a tiny amount of highly-enriched uranium into Georgia. *CEDR*, Apr. 27, 1998, Doc. No. FTS-558; Feb. 4, 1999, Doc. No. FTS-1112; May 3, 2000, Doc. No. CEP-9; Jan. 24, 2002, Doc. No. CEP-55; Jan. 25, 2007, Doc. No. CEP-950026; Jan. 25, Doc. No. CEP-950351.

Georgia, as a major conduit for oil and gas pipelines,[39] and because of its economic and democratic reforms, has emerged as the key to regional stability and security, according to some observers.[40] By the same token, instability in Georgia could threaten the whole region by providing greater opportunities for outside powers to meddle. Georgia has working relations with the other two states of the region and with Turkey, and is a member with Azerbaijan in GUAM (see below). Georgia and Azerbaijan have common interests that have encouraged limited cooperation. Both face separatism, perceive Russia as domineering, seek revenues from oil and gas transport, and are pro-Western.[41] Armenia seeks workable relations with Georgia so that it may retain transport links to Russia, its major energy supplier. Georgia must balance its relations to prevent one or the other regional state from accusing it of favoritism regarding the NK conflict.[42] Armenia has increasing links (and proposals for links) with Iran. Trade ties with Iran already permit Armenia to export electricity and import oil from Iran and to receive products shipped via Iran.

In early 2006, Russia charged all three states much more for gas. In May 2006, Armenia agreed to relinquish various energy assets to Russian firms as partial payment for this price increase. Some critics have alleged that Russia now has virtual control over Armenia's energy supplies.[43]

In late 2006, Russia again requested price hikes for 2007. In the case of Georgia, Russia's state-controlled Gazprom gas firm announced in early November 2006 that it would cut off gas supplies to Georgia by the end of the year unless Georgia agreed to a 100% price hike or sold its main gas pipeline to Gazprom. Spurred by Russia's economic sanctions and this announcement, Georgia negotiated an agreement to receive some Azerbaijani gas via the new South Caucasus Pipeline (SCP; see below) and another small existing pipeline. It also agreed to continue to purchase some higher-priced gas from Gazprom. Russia's requests for higher prices and reductions in the amounts of gas and electricity supplied to Azerbaijan led President Aliyev to announce that the country would no longer purchase Russian gas (however, agreement was reached to provide Russian electricity, but at a higher price).

---

[39] The oil pipeline from Baku, Azerbaijan, through Tbilisi, Georgia, to Ceyhan, Turkey (the BTC pipeline) and an associated South Caucasus Pipeline (SCP) for gas from Azerbaijan's offshore Shah Deniz fields to Turkey's gas pipeline network.

[40] Robert Cutler, *Newsbase FSU Oil and Gas Journal*, June 6, 2000.

[41] Another issue of contention, border delimitation, reportedly moved closer toward resolution in 2005. *CEDR*, May 9, 2005, Doc. No. CEP-39.

[42] *CEDR*, Feb. 2, 2005, Doc. No. CEP-347.

[43] Despite earlier denials, Armenian officials announced on Oct. 31, 2006, that Gazprom would assume effective management control of an Iranian-Armenian gas pipeline currently under construction. According to analyst Vladimir Socor, this acquisition may provide Gazprom with another source of inexpensive foreign gas so that it may boost sales of its own gas to Europe. Also, this acquisition may indicate Russia's intent to block use of Armenia as a pipeline route independent of Russian control. *Eurasian Daily Monitor*, Nov. 3, 2006. See also RFE/RL, *Armenia Report*, Oct. 31, 2006.

The activities of Russia's state-controlled United Energy Systems (UES) in Armenia and Georgia have raised concerns among some observers. UES in mid-2005 gained management control or ownership over virtually all of Armenia's electric power system, including the Metsumor nuclear power plant. In Georgia, UES in late 2003 bought controlling interests in the Tbilisi electrical grid and several hydro- and thermal power generation facilities.

All three states have been faced with constructing military forces to address regional conflicts and low-intensity threats. Poverty and the need for know-how and equipment have forced them to seek outside assistance. Armenia has proceeded the farthest. It suppressed most paramilitary forces potentially dangerous to civil order in the early 1990s. The Yerevan-based Soviet 7th Army, disbanded in 1992, provided a ready-made model for Armenia's armed forces. Russia provides officer training and military equipment, including regional air defenses, under the CIS Collective Security Treaty (CST) and bilateral accords. Azerbaijan's rejection of many ties with the Russian military stymied its early military development. Azerbaijan's and Georgia's reliance until the mid-1990s on paramilitary forces to combat regional separatism contributed to wide civil disorder in both states.

Partnership for Peace. All three of the South Caucasus states have joined NATO's Partnership for Peace (PFP) to facilitate the modernization of their armed forces and to increase ties with Europe. PFP status seeks to assure the South Caucasus states that they are not in a "power vacuum" or completely vulnerable to neighboring powers. Georgia has looked to links with PFP as the road to eventual NATO membership that will provide security guarantees against possible Russian revanchism. In 2004-2005, all three states agreed with NATO to participate in Individual Partnership Action Plans (IPAPs) for military and civil-military reforms. On September 21, 2006, NATO approved Georgia's application for "Intensified Dialogue" with the alliance, ostensibly because of Georgia's military reform progress, although NATO also emphasized that much more reform work needed to be done before Georgia might be considered for NATO membership. Although the United States reportedly urged that Georgia be considered for a Membership Action Plan (MAP; preparatory to membership), NATO's Riga Summit in November 2006 reaffirmed support for an intensified dialogue to assist Georgia in implementing reforms.[44]

Illustrating support for PFP, Azerbaijani troops serve as NATO peacekeepers in Kosovo as part of the Turkish battalion in the German sector, and Georgian troops serve as part of the Turkish battalion in the U.S. sector. The June 2004 NATO summit pledged enhanced attention to the South Caucasian and Central Asian PFP members. A Special Representative of the NATO General Secretary was appointed to encourage democratic civil-military relations, transparency in defense planning

---

[44] NATO. North Atlantic Council. *Riga Summit Declaration*, Nov. 29, 2006. President Bush stated that the United States supported Georgia's NATO membership. Remarks By President Bush In Riga, Latvia, *PR Newswire*, Nov. 28, 2006. Sen. Richard Lugar urged soon granting Georgia a MAP and suggested that NATO's energy security would be facilitated by eventually offering NATO membership to Azerbaijan and Kazakhstan. Senator Lugar Delivers Remarks at the Riga Summit, Latvia, *Congressional Quarterly Transcripts*, Nov. 27, 2006.

and budgeting, and enhanced force inter-operability with NATO. While including the South Caucasus states in NATO activities, NATO seeks to reassure Russia — by including it as a member of PFP and by establishing a NATO-Russia Council — that it is not excluding Russia from a regional role as long as Moscow supports regional stability, democratization, and the creation of free markets.[45]

Armenia announced in July 2000 that it aimed to increase activities with PFP. Its Foreign Ministry argued that Armenia was falling behind Azerbaijan and Georgia in such activities and wished to ensure its security by developing the widest possible international ties, especially with the world's "most influential" security body. The Foreign Ministry explained that Armenia had been reluctant to increase ties with NATO because of possible Russian reactions but that Russia itself had developed such ties. To support NATO, Armenia began to send peacekeepers to Kosovo in 2003 as part of the Greek battalion. Armenia's officials also stressed that participation in PFP kept the country abreast of PFP training and aid provided to Azerbaijan.[46] Armenia decided in December 2005 to further advance its relationship with NATO by adopting an Individual Partnership Action Plan, but President Kocharyan has indicated that Armenia will not seek NATO membership.

CSTO. At an April 28, 2003, summit, Armenia joined Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan in creating the CST Organization (CSTO), which set up a secretariat for operational military planning and budget coordination.[47] The main stated objectives of CSTO are to combat terrorism and drug trafficking, particularly in Central Asia, with an initial focus on establishing the rapid deployment force in Kant, Kyrgyzstan. Many observers view the creation of the CSTO as a mainly Russian initiative to increase security influence over member-states to counter U.S. and other outside influence.[48] By establishing a joint military leadership, the CSTO is supposed to be able to quickly decide on sending troops to troublespots. Its possible usefulness appeared sorely tested by the "tulip revolution" in Kyrgyzstan in March 2005. Although Russian Gen. Nikolay Bordyuzha, the secretary general of CSTO, urged intervention, Kyrgyzstan's then-President Askar Akayev reportedly vetoed his offers. While the CSTO appears focused on Central Asian security, Azerbaijan and Georgia have raised concerns about the CSTO's possible role in the South Caucasus. In March 2007, CSTO Secretary General Nikolay Bordyuzha highlighted the benefits that Armenia receives from membership, including being able to purchase Russian weaponry at a discount and to send its troops to Russian military schools. He also mentioned its efforts to publicize

---

[45] Eugene Rumer and Jeffrey Simon caution that as these states increase their ties to NATO, Russia may object and reduce its Black Sea-Caspian Sea regional security cooperation. They argue that NATO has "no option but to engage Russia in a focused and difficult dialogue about the way ahead in a region where both [NATO and Russia] have interests." *Toward a Euro-Atlantic Strategy for the Black Sea Region*, Institute for National Strategic Studies, National Defense University, Apr. 2006, p. 16.

[46] *CEDR*, July 26, 2000, Doc. No. CEP-63; Jan. 18, 2003, Doc. No. CEP-166; Feb. 12, 2003, Doc. No. CEP-174; Feb. 16, 2003, Doc. No. CEP-66; May 19, 2003, Doc. No. CEP-213.

[47] *CEDR*, Apr. 29, 2003, Doc. No. CEP-96; Apr. 29, 2003, Doc. No. CEP-132.

[48] Ibragim Alibekov and Sergei Blagov, *Eurasia Insight*, Apr. 29, 2003.

common foreign policies, among them CSTO support for restrictions on electoral observers from the OSCE and opposition to the discussion of "frozen conflicts" in the United Nations.[49]

Caucasus Security Pact Proposals. At the November 1999 OSCE Summit and other forums, Kocharyan, former Turkish President Suleyman Demirel, and former presidents Shevardnadze and Aliyev called for the creation of a South Caucasus security system that would provide regional states and external powers with shared stakes in regional stability. Kocharyan explained that his "Round Table on Stability" proposal was prompted by the withdrawal of Azerbaijan and Georgia from the CIS Collective Security Pact. He called for the creation of a sub-CIS system whereby the three regional states, buttressed by their neighbors, and aided by the EU and the United States, would guarantee regional stability. Iran endorsed the creation of such a pact, though calling for it to initially exclude external powers.[50]

Seeking to play a leading role in forming such a pact, Putin convened side meetings with the leaders of the three Caucasus states during CIS summits in 2000 (meetings of lower-level officials of the four states had begun in 1997), but the region's leaders appeared to disagree with Putin that Russia and other "Caucasus countries must alone shape the region's fate," excluding outside interests. The last meeting of the so-called "Caucasus Four" took place in Moscow in September 2003 among the region's legislative speakers. A meeting planned for early 2004 in Tbilisi was apparently sidelined by Georgia's "rose revolution." Russia and Armenia have called for the resumption of "Caucasus Four" meetings, but the Saakashvili government has appeared to balk at participating in the Russia-led grouping, rendering it moribund.[51]

In recent years, Iran has intensified its attempts to involve itself in regional economic and security cooperation, to dissuade the states from bolstering security ties with the United States, including agreements to host U.S. military assets, which Iran fears the United States would use to attack it. These Iranian efforts have been stepped-up in the wake of international criticism of its nuclear programs. High-level Iranians have visited each regional state, in turn have hosted high-level regional

---

[49] *ITAR-TASS*, Mar. 15, 2007; *CEDR*, Mar. 16, 2007, Doc. No. CEP-950249. According to Armenian Foreign Minister Oskanyan, Article 4 of the CST ("in case an act of aggression is committed against any of the member-states, all other member-states will render it necessary assistance, including military, as well as provide support with the means at their disposal through an exercise of the right to collective defense") pertains to aggression from outside the CIS, so does not pertain to the Armenia-Azerbaijan conflict (since Azerbaijan is a member of the CIS). Interview, Oct. 26, 2006.

[50] Gerald Libaridian, reported in *RFE/RL Caucasus Report*, June 15, 2000; Wayne Murray, reported in *Caucasus Reporting Service*, no. 38, June 30, 2000.

[51] *Nezavisimaya gazeta*, May 17, 2000, p. 1; *Caucasus Stability Pact - Iran Counters Russian Expansion*, May 25, 2000; *CEDR*, Sept. 30, 2003, Doc. No. CEP-386. A planned "Caucasus Four" meeting of legislative speakers planned for Nov. 2006 on the sidelines of a CIS speakers summit in St. Petersburg apparently was not held. At the CIS speakers' meeting, Russian Duma Speaker Boris Gryzlov reportedly refused to meet with Georgian Speaker Nino Burjanadze. *CEDR*, Nov. 16, 2006, Doc. No. CEP-950221.

politicians, and have met with regional leaders in international forums to make their case.

The Speaker of the Iranian Majlis, Gholamali Haddad-Adel, visited Armenia and met with then-Prime Minister Margaryan in September 2006. The Speaker reportedly condemned the United States for being opposed to countries that attempt to follow independent policies. In October 2006, Iran's Foreign Minister Manouchehr Mottaki raised concerns with Georgia about the country's rising tensions with Russia. While he reportedly urged both Russia and Georgia to peacefully resolve their differences, he also extended an invitation to Georgian Foreign Minister Gela Bezhuashvili to visit Iran. Later in October, Bezhuashvili visited Iran, where Mottaki praised growing ties between the two states, including possible Iranian natural gas sales to Georgia. At the same time, Mottaki argued that closer ties with Georgia would not jeopardize Iran's nuclear cooperation with Russia, and he offered to mediate the Georgia-Russia dispute.

Azerbaijan's Minister of Defense Industries Yavar Jamalov visited Iran in December 2006, where Defense Minister Mostafa Mohammad Najjar offered aid in revitalizing Azerbaijan's defense industry. Barely a week later, Armenian Foreign Minister Oskanyan visited Iran, where he reportedly urged President Mahmoud Ahmadinejad and other officials to continue to play a "constructive and sensitive" role in the region, perhaps reflecting Armenia's concerns about Iran's ties with Azerbaijan. Despite these apparently positive high-level Iranian-Azerbaijani contacts, there was rising popular discontent in Azerbaijan in late 2006 and early 2007 about reported Iranian crackdowns on dissent by ethnic Azerbaijanis in Iran. Perhaps intent on dispelling such concerns, President Ahmadinejad during his February 2007 visit to the border town of Astara emphasized Iran's interest, "notably with Azerbaijan, [in] secure, brotherly borders, filled with kindness," and condemned alleged machinations by "enemies" who oppose "good neighborliness" and "try to sow discord."[52]

GUAM. In another area of regional cooperation, the GUAM states (formed from the initials of the member-states: Georgia, Ukraine, Azerbaijan and Moldova)[53] share common interests in resisting Russian domination and in securing energy transport and supply that is outside Russian control. Formed in 1997, Azerbaijan, Georgia, and Ukraine in early 1999 held joint military exercises aimed at protecting the Georgian oil pipeline. Russia has opposed GUAM as usurping CIS functions,

---

[52] Open Source Center. *Iran: Daily Report* (hereafter *IDR*), Dec. 3, 2006, Doc. No. IAP-950065 and IAP950089; *CEDR*, Dec. 8, 2006, Doc. No. CEP-950459; *ITAR-TASS*, Dec. 17, 2006; *IDR*, Dec. 17, 2006, Doc. No. IAP-950073; Jan. 2, 2007, Doc. No. IAP-950125; Mar. 14, 2007, Doc. No. IAP-950083. After Ahmadinejad's visit to Astara, the Iranian Foreign Ministry reportedly apologized for the violation of Azerbaijani airspace by some helicopters.

[53] The group admitted Uzbekistan as a member in April 1999, but Uzbekistan stopped participating in most activities in 2002 and formally withdrew in May 2005. In a letter announcing the withdrawal, Karimov reportedly stated that Uzbekistan disliked "the organization's emphasis on the resolution of frozen conflicts, the formation of joint armed blocs, and the review of existing security systems," outside its geographical area of interests. *CEDR*, May 9, 2005, Doc. No. CEP-23004.

but also called for GUAM to admit Moscow as a member. In 2000, the members agreed to convene regular summits and ministerial-level conclaves.[54] At the July 2002 meeting in Yalta, GUAM countries signed an "Agreement on Cooperation in the Battle against Terrorism, Organized Crime and Other Dangerous Types of Crime." At a Georgia-Ukraine presidential summit in May 2003, the two leaders called for naming military coordinators to work out security cooperation within GUAM, with Georgian officials arguing that such cooperation could help prepare the members for NATO membership.[55]

The "rose revolution" in Georgia in late 2003, the "orange revolution" in Ukraine in late 2004, and political reforms in Moldova gave GUAM a democratic orientation. At a meeting in April 2005, the members and invited guests (including Lithuania and Romania) proclaimed the goal of consolidating democracy in the Black Sea region and beyond, called for ending regional "frozen conflicts," and discussed energy transport cooperation. Ukrainian President Viktor Yushchenko suggested that GUAM focus on integration with NATO and the EU. All these subjects had concerns about Russian behavior at their core. The first GUAM-sponsored Virtual Center for Fighting Against Terrorism, Organized Crime, Drug Trafficking and Other Dangerous Crimes opened in Azerbaijan in July 2005 and the second in Kyiv, Ukraine, in May 2006. These centers in member-states are supposed to exchange data, but reportedly such cooperation still was below par in early 2007.

In May 2006, the heads of state of the GUAM countries signed a charter renaming the organization "GUAM: the Organization for Democracy and Economic Development" and proclaiming that the group seeks economic and security integration with the West. Combating crime, terrorism, and separatism were highlighted. In June 2006, the Ukrainian defense minister proposed that GUAM form a peacekeeping force, including to possibly substitute for Russian peacekeepers in the "frozen conflict" regions. In September 2006, the GUAM delegations to the U.N. General Assembly succeeded in getting their proposal for a discussion of "protracted conflicts" in the GUAM states placed on the agenda. In October 2006, GUAM foreign ministers issued a statement calling on Russia to refrain from "unilateral actions" against Georgia and supporting Georgia's call for Russian-Georgian talks on introducing international forces in the separatist areas. In December 2006, Colonel-General Sergiy Kirichenko, chief of the General Staff of Ukraine's armed forces, reportedly announced plans to form a GUAM peacekeeping force to serve in U.N. peacekeeping operations. Problems in forming this force may include opposition within Ukraine's legislature to the GUAM charter.[56]

---

[54] *CEDR*, Mar. 17, 2000, June 19, 2000, and Sept. 9, 2000.

[55] *CEDR*, May 7, 2003, Doc. No. CEP-224.

[56] *CEDR*, Apr. 22, 2005, Doc. No. CEP-238; Apr. 25, 2005, Doc. No. EUP-87; Apr. 25, 2005, Doc. No. CEP-102; May 25, 2006, Doc. No. CEP-4002; Oct. 16, 2006, Doc. No. CEP-950116; Oct. 17, 2006, Doc. No. CEP-950149; Dec. 13, 2006, Doc. No. CEP-358001; Mar. 2, 2007, Doc. No. CEP-950315. According to Georgian analysts Pikria Asanishvili and Avtandil Tukvadze, GUAM will not meet its full potential until Armenia is admitted — making GUAM a true regional organization — and the people of the South Caucasus realize that regional integration will benefit them. *Central Asia and the Caucasus*, no. 3, June 30, (continued...)

GUAM has received significant encouragement from the United States, including a Congressional authorization for funding (The Security Assistance Act of 2000; P.L. 106-280),[57] that some observers have viewed as sustaining the group. In December 2002, then-Assistant Secretary Jones and the GUAM ambassadors adopted a framework program of projects to facilitate regional trade and transport, the improvement of border and customs services, and the fight against terrorism, organized crime and drug-trafficking.[58] Under the accord, the United States funded pilot programs of customs and border training and GUAM law enforcement offices, with rotating meetings in each of the GUAM capitals of expert level working groups. The United States voted for putting the discussion of "protracted conflicts" in GUAM member-states on the agenda of the 2006-2007 session of the U.N. General Assembly. The U.S. representative argued that discussion would not "gravely" harm ongoing peace talks, but Russia and Armenia warned of possible negative effects.[59] The budget requests for FY2005 and FY2006 called for FREEDOM Support Act (FSA) funds to be used to bolster Moldova's and Ukraine's participation in GUAM, and the budget request for FY2007 called for some portion of $29.4 million for FSA regional programs to be used to fund GUAM activities. GUAM was not mentioned in the FY2008 budget request.

Energy and Transport. Issues of regional security and the balance of regional power, as well as of economic advantage, have increasingly come to be wrapped up with the issue of pipeline politics. The discovery of major new oil and gas resources in the Caspian Sea in recent years has contributed to the strategic significance of the South Caucasus region as an energy producer and transport corridor. The U.S. Energy Department reports 7-13 billion barrels of proven oil reserves and 30 trillion cubic feet of proven natural gas reserves in Azerbaijan.[60] Russia and Kazakhstan have reported finding energy reserves in the Caspian Sea rivaling those of Azerbaijan. Azerbaijan faced many obstacles to fully exploit and market its energy resources, including project financing, political instability, ethnic and regional conflict, and pipeline security.

U.S. companies were shareholders in about one-half of about twenty international production-sharing consortiums formed in the 1990s to carry out oil and

---

[56] (...continued)
2005.

[57] P.L. 106-280 authorized assistance to GUAM and Armenia for International Military Education and Training (IMET), Foreign Military Financing (FMF), nonproliferation and export control, and antiterrorism assistance for FY2001-FY2002. Section 907 provisions blocking FMF and IMET aid to Azerbaijan remained in place.

[58] U.S. Department of State. Office of the Spokesman. *Joint Statement of the United States, Azerbaijan, Georgia, Moldova, Ukraine, and Uzbekistan,* Dec. 23, 2002.

[59] *CEDR*, Sept. 14, 2006, Doc. No. CEP-950244. U.N. General Assembly. Sixty-First Session. General Committee. *Summary Record of the 1st Meeting on 12 September 2006*, A/BUR/61/SR.1, Oct. 13, 2006; U.N. General Assembly. Sixty-First Session. *2nd Plenary Meeting*, A/61/PV.2, Sept. 13, 2006.

[60] U.S. Department of Energy. Energy Information Administration. *Country Analysis Report: Azerbaijan*, Aug. 2006.

gas exploration, appraisal, development, and production. Many of these consortiums were dissolved after the firms did not find commercially significant resources. The first was the Azerbaijan International Oil Corporation (AIOC), formed to exploit the Azeri-Chirag-deepwater Gunashli (ACG) oil and gas fields. In 1995, Heydar Aliyev and the AIOC decided to transport "early oil" (the first and lower volume of oil from AIOC fields, along with other Azerbaijani oil) through two Soviet-era pipelines in Georgia and Russia to ports on Russia's Black Sea coast. The capacity of each of these pipelines is around 100,000-115,000 barrels per day (bpd).

A "main oil" pipeline — with a capacity of one million bpd — began delivering oil from Baku through Georgia to Turkey's Mediterranean port near Ceyhan in June 2006. The Clinton Administration launched a major campaign in late 1997 stressing the strategic importance and suitability of this route as part of a "Eurasian Transport Corridor," including possible trans-Caspian links to Central Asia. Volatile oil prices and questions about the amount of oil in the Caspian region raised concerns among oil firms about financial risks of the route.

Political endorsement of the Baku-Tbilisi-Ceyhan (BTC) route was provided by a 1998 meeting of the presidents of Turkey, Georgia, Azerbaijan, Kazakhstan, and Uzbekistan, and then-U.S. Energy Secretary Bill Richardson, where they pledged to cooperate to ensure the commercial viability of the route. An even more important "Istanbul Protocol" on construction of the BTC oil pipeline was signed in November 1999 by Azerbaijan, Georgia, Turkey, and Kazakhstan (with then-President Clinton in attendance). It is reported that the pipeline cost $4 billion to build. Kazakhstan has agreed to barge some oil across the Caspian Sea for transport through the pipeline, helping to address under-utilization of the pipeline until oil production increases in Azerbaijan. A gas pipeline to Erzurum, Turkey was built parallel to the oil pipeline (the South Caucasus Pipeline or SCP), and was inaugurated in March 2007. The SCP section in Azerbaijan and Georgia, completed earlier, was pressed into service in the winter of 2006-2007 to deliver some gas from Azerbaijan's offshore Shah Deniz gas fields to Azerbaijani and Georgian customers (another small pipeline also delivered Azerbaijani gas to Georgia). Azerbaijan had balked at paying substantially increased prices for Russian gas, and Georgia had reduced its own purchases of Russian gas after the price increase.

Some analysts argue that the opening of the BTC pipeline and associated SCP, along with the re-opening of the region's roads, railways, and other transport, may well transform the economies of the region by bringing substantial energy transit fees, energy revenues, and trade. Others are less optimistic, warning that the states and separatist areas still maintain several transport blockades and barriers. Many in Armenia are concerned that Azerbaijan will gain added revenues from oil and gas exports that it might channel into military action against NK. However, Armenian Foreign Minister Vardan Oskanyan in January 2004 suggested that the completion of the pipelines could make Azerbaijan reticent to launch a conflict that could result in the destruction of the pipelines.[61]

---

[61] Edmund Herzig, *The New Caucasus*. London, Royal Institute of International Affairs, 1999, p. 93; Amy Myers Jaffe and Robert Manning, *Survival*, Winter 1998-1999, p. 115; (continued...)

U.S. Policy and Issues

In congressional testimony in March 2005, Gen. James Jones, then the head of USEUCOM, stated that "the Caucasus is increasingly important to our interests. Its air corridor has become a crucial lifeline between coalition forces in Afghanistan and our bases in Europe. Caspian oil, carried through the Caucasus, may constitute as much as 25 percent of the world's growth in oil production over the next five years ... This region is a geographical pivot point in the spread of democracy and free market economies to the states of Central and Southwest Asia." Former Assistant Secretary of State Elizabeth Jones in 2003 stated that, thanks to U.S. security assistance, "as each day passes, the countries of Central Asia and the Caucasus are becoming better equipped, better trained and better coordinated with one another to deal with transnational threats." However, she also claimed that U.S. security assistance was "integrated" with programs to enhance human rights and political and economic reforms.[62]

Conflict resolution is part of this policy to enhance stability in the region. Among the first foreign policy acts of the Bush Administration was the hosting of peace talks in Key West, Florida between Armenia and Azerbaijan. President Bush reportedly pledged to then-President Shevardnadze in March 2003 that after the U.S.-led coalition had eliminated WMD in Iraq, the United States would enhance its diplomatic efforts to end separatist conflicts in Georgia. President Bush re-emphasized this support during his May 2005 visit to Georgia.

In some respects, U.S. policy has tended to view the South Caucasian countries (and those of Central Asia) as part of the Caspian Sea-Black Sea region, to include the Black Sea littoral states in the west and Afghanistan in the east. This view is partly the result of the necessary transit of U.S. and NATO forces and supplies based in Europe across these countries to the Afghan military theater. Also, U.S. policy has tended to focus on westward oil and gas transit routes from Caspian regional states. On the other hand, the U.S. State Department in 2005 implemented a persistent congressional call to re-assign responsibility for the Central Asian states to the Bureau for South Asian Affairs, leaving responsibility for the South Caucasus to the Bureau for European and Eurasian Affairs.[63] U.S. military operational planning also separates these regions. In 1999, the Central Asian states were reassigned to USCENTCOM's area of responsibility, covering Horn of Africa countries and many Middle Eastern and South Asian states, leaving the South Caucasus states (and the Caspian Sea) in USEUCOM's area of responsibility, covering Europe.

---

[61] (...continued)
CEDR, Jan. 14, 2004, Doc. No. CEP-153.

[62] U.S. Congress. Senate. Committee on Armed Services. Testimony by Gen. James Jones, Mar. 1, 2005; Elizabeth Jones, Speech at the University of Montana, Apr. 10, 2003.

[63] Jaroslaw Skonieczka, A Black Sea strategy, according to some observers, would "de-link" the South Caucasus countries from the Central Asian states, so that the former might be more clearly viewed as European countries and included in European institutions. *The Black Sea Region*, NATO International Staff, 2004.

Specific U.S. interests in Armenia include cooperation in the war on terrorism and combating arms and other illicit trafficking. A durable and peaceful resolution of the Armenia-Azerbaijan conflict acceptable to both parties is "key" to U.S. interests that include stability in the South Caucasus, regional economic cooperation that ends Armenia's isolation, and improved Armenian-Turkish relations. Armenia's shift away from a war footing would also further U.S. interests in Armenia's economic development and improved standards of living (*Congressional Budget Justification for Foreign Operations, FY2007*).

U.S. national interests in Azerbaijan include cooperation in the war on terrorism, the advancement of U.S. energy security, and progress in democratic and economic reforms, which will enhance internal stability. Such stability, according to the Administration, will reduce tendencies for Azerbaijani conflict with Iran and Armenia. Azerbaijan's creation of a transparent and corruption-free market economy is deemed essential to its role as a "vital" link in the trans-Caspian energy corridor, and it has the "potential to play a significant role in the diversification of American and global energy supplies." Azerbaijan's conflict with Armenia over Azerbaijan's Nagorno Karabakh area, and its tensions with Iran upset stability in the "critical" South Caucasus region (*Congressional Budget Justification for Foreign Operations, FY2007*).

According to the Administration, "Georgia plays a key role in furthering U.S. interests" and has been a "premier partner" in the Global War on Terrorism by providing troops for coalition operations in Iraq and other support. Since its late 2003 "revolution of roses" (see below), Georgia has been a model of free market democratic reform and a "close partner" in supporting U.S. democratization goals in the Soviet successor states and beyond. Georgia is becoming "a key conduit through which Caspian Basin energy resources will flow to the West, facilitating diversification of energy sources for the United States and Europe" (*Congressional Presentation for Foreign Operations for FY2007*).

Contributions to Operation Enduring Freedom in Afghanistan. In the wake of September 11, 2001, U.S. policy priorities shifted toward global anti-terrorist efforts. In the South Caucasus, the United States obtained quick pledges from the three states to support U.S. and coalition efforts in Afghanistan, including overflight rights and Azerbaijan's and Georgia's offers of airbase and other support. The State Department's *Country Reports on Global Terrorism* has highlighted U.S. support for Azerbaijan's and Georgia's efforts to halt the use of their territories as conduits by international mujahidin and Chechen guerrillas for financial and logistic support for Chechen and other Caucasian terrorists.

Georgia. Then-President Shevardnadze immediately condemned the "scum" who attacked the United States on September 11, 2001, and one week later offered Georgian "airspace and territory" for use by U.S. troops. During his U.S. visit with President Bush in October 2001, he reiterated Georgia's "full cooperation and solidarity" with the U.S. and coalition actions in Afghanistan, and the full use of Georgia's airspace and airbases. He also reportedly asked for U.S. training assistance

for Georgia's security forces to help them reassert control in the Pankisi Gorge.[64] On February 11, 2002, the U.S. Embassy in Georgia declared that the United States was ready to help Georgia combat several dozen al Qaeda and other terrorists who had fled to the Caucasus from Afghanistan. Some had relocated to Georgia's Pankisi Gorge area bordering Chechnya, where they maintained links with Chechen terrorists. On February 27, 2002, President Bush announced that the United States would provide equipment and training to help Georgia rout al Qaeda influences. The next day, the U.S. Defense Department announced plans for a "Georgia Train and Equip Program" (GTEP), as part of the global war on terrorism (see also below, *Security Assistance*).

Russia initially reacted critically to the U.S. announcement of the GTEP, but President Vladimir Putin on March 1, 2002, stated that he had received assurances from then-President Shevardnadze that the United States was not seeking permanent bases. He stressed that "we support this fight [in the Pankisi Gorge] no matter who takes part in it," although he called for Russia's participation. National Security Advisor Condoleezza Rice on May 11, 2002, stated that Russia was a "stalwart asset and friend" in viewing the GTEP as "helpful to Russian interests."

Georgia contributed about 50 troops for peacekeeping in Afghanistan during Afghan elections in late 2004-early 2005. In March 2007, President Saakashvili announced that Georgia intended to send 100 troops to support NATO in Afghanistan.

Azerbaijan. The day after the terrorist attacks on the United States, Azerbaijan's then- President Heydar Aliyev averred that Azerbaijan was a "strategic partner" of the United States and would join the United States in operations against terrorism. Azerbaijan granted blanket overflight rights and intelligence support and offered the use of its bases. After the commencement of air operations in Afghanistan on October 6, 2001, Heydar Aliyev endorsed coalition actions in a phone conversation with then-Secretary Powell on October 9 and with President Bush on October 30, 2001. NK Armenians and U.S. diplomats have censured statements by Azerbaijani officials calling for international "counter-terrorism" actions against NK. Azerbaijan in November 2002 deployed 30 troops to assist the U.S.-led coalition in Afghanistan.

Armenia. Immediately after September 11, 2001, Armenia's President Kocharyan offered condolences and Armenia's Department for Emergencies proffered rescue aid. On September 19, Armenian Defense Minister Serzh Sarkisyan stated that Armenia would contribute to U.S.-led counter-terrorism efforts, and Kocharyan the next day offered Armenia's support for international counter-terrorism efforts during a meeting with the U.S. Ambassador to Armenia. On September 27, the presidential press service reported that this support included military overflight rights, and other reports mentioned intelligence sharing. While supporting diplomatic efforts to convince the Taliban to extradite those responsible for the

---

[64] According to *Patterns of Global Terrorism 2002*, p. 29, the United States strongly urged Georgia to "regain control of the Pankisi Gorge," where terrorists with links to al Qaeda threatened the security of both Georgia and Russia.

September 11, 2001, attacks, after the start of coalition actions in Afghanistan on October 6, Armenia expressed support for the "consistent and decisive" military actions to safeguard the "global community" from international terrorism. Armenia explained that this support was consistent with its foreign policy of complementarity, which calls for good relations with both Russia, the United States, and Middle Eastern countries such as Iran in order to buttress the country's independence, gain support for NK Armenians, and protect the interests of Armenians living in the Middle East and elsewhere.[65]

Section 907. In the U.S. Congress, the events of September 11, 2001, altered attitudes toward Sec.907, causing the Members to permit the lifting of aid sanctions on Azerbaijan to facilitate regional cooperation on anti-terrorism, conflict resolution, and energy development. Permanent Presidential waiver authority was added to the Senate version of Foreign Operations Appropriations for FY2002 (H.R. 2506) and retained by the conference managers. The President may use the waiver authority if he certifies to the Appropriations Committees that it supports U.S. counter-terrorism efforts, supports the operational readiness of the armed forces, is important for Azerbaijan's border security, and will not harm peace talks between Armenia and Azerbaijan or be used for offensive purposes against Armenia. The waiver may be renewed annually on or after December 31, 2002, and sixty days after the exercise of the waiver authority, the President must send a report to Congress specifying the nature of aid to be provided to Azerbaijan, the status of the military balance between Armenia and Azerbaijan and the effects of U.S. aid on that balance, and the status of peace talks between Armenia and Azerbaijan and the effects of U.S. aid on those talks.

Days after being signed into law (P.L. 107-115), President Bush on January 25, 2002, exercised the waiver. The most recent waiver was exercised in March 2007. The President has stated that the waiver is necessary to support U.S. counter-terrorism and the operational readiness of U.S. Forces and coalition partners. He also has averred that the waiver permits U.S. border security aid for Azerbaijan and does not hamper efforts to settle the NK conflict.

Support for Iraqi Freedom Operations. Azerbaijan and Georgia are among the countries that openly pledged to support the U.S.-led Operation Iraqi Freedom. Both offered to make their airfields available and to assist the United States in re-building Iraq. Azerbaijan's foreign minister on March 14, 2003, indicated Azerbaijan's preference for a peaceful solution, but stated that Azerbaijan would support U.S. action in Iraq. Azerbaijan has raised concerns about the welfare of some 300-900,000 Turkic speakers in Iraq. In August 2003, both Azerbaijan (150 troops) and Georgia (69 troops) dispatched forces to Iraq. U.S. officials reportedly asked Azerbaijan and Georgia in April 2004 to bolster their troop contributions in the face of Spain's troop pullout. Georgia boosted its deployment to 850 troops in 2005, at that time matching the contributions by Australia and Ukraine. Azerbaijan's troops help U.S. Marines guard the Haditha dam.[66] Georgia's troops guard military

---

[65] *Armenian Agency Praises Foreign Policy*, BBC Worldwide Monitoring, Sept. 24, 2001.

[66] The U.S. and Azerbaijani troops allegedly do not fraternize, ostensibly because of (continued...)

and other facilities, help patrol around the town of Ba'qubah, and also help protect U.N. and coalition offices in Baghdad's "Green zone." In March 2007, President Saakashvili announced that Georgia intended to boost its troop deployment from 850 to up to 2,000 for a period of one year, which would make Georgia the second-largest non-U.S. contributor (after the United Kingdom).

Armenia initially did not support military intervention in Iraq, citing its concerns about the safety of 15,000 ethnic Armenians residing in Iraq and 200,000 in the Middle East, concerns about Turkish expansionism into Kurdish areas of Iraq, and affinities with the views of France, Germany, and Russia. However, in September 2004, the presidents of Poland and Armenia agreed that Armenian troops could serve with the Polish contingent in Iraq to carry out humanitarian work. The Armenian legislature approved the planned deployment, and 46 personnel left for Iraq in January 2005.

Azerbaijan and Georgia reportedly suffered some economic losses associated with the Iraq conflict. BTC pipeline construction was reportedly temporarily delayed because of material delivery problems, and Azerbaijan reported that its support for the United States led several Islamic banks and investors to curtail operations or negotiations.[67] Some Azerbaijanis have objected to support for coalition actions in an Islamic country.

U.S. Security and Law Enforcement Assistance

The United States has provided some security assistance to the region and bolstered such aid after September 11, 2001. Cumulative budgeted funding for FY1992-FY2005 security programs (including law enforcement) was $131.6 million for Armenia, $90.2 million for Azerbaijan, and $379 million for Georgia, amounting to about 16% of cumulative budgeted funding for all South Caucasus programs. In FY2006, security assistance was $18.62 million for Armenia, $40.41 million for Azerbaijan, and $75.67 million for Georgia. The total FY2006 security assistance amounted to about 53% of budgeted funding for all programs in the region, reflecting an increased U.S. emphasis on bolstering regional security (see **Tables 1 and 2**).

In regard to FY2007 security assistance, which is provided through the foreign operations budget, a continuing resolution was signed into law on September 29, 2006 (H.R. 5631/P.L. 109-289, Division B), that provided funding for foreign operations at the lower of the House-passed, Senate-passed, or FY2006 level through February 15, 2007. P.L. 109-289 was amended by P.L. 109-369 and P.L. 109-383. On February 15, 2007, H.J.Res. 20 was signed into law (P.L. 110-5), to further amend P.L. 109-289 to provide funding for foreign operations for the remainder of

---

[66] (...continued)
"language and culture" barriers. Tony Perry, *CENTCOM NEWS*, June 21, 2005; *CEDR*, May 20, 2005, Doc. No. CEP-27036; May 23, 2005, Doc. No. CEP-20005. One of the Azerbaijani officers has alleged mistreatment by Azerbaijani commanders. *CEDR*, Mar. 28, 2007, Doc. No. CEP-950314.

[67] *CEDR*, Mar. 25, 2003, Doc. No. CEP-226.

FY2007 under the authority, conditions, and level of FY2006 funding, except as adjusted.[68]

Until waived, Sec. 907 had prohibited much U.S. security aid to Azerbaijan, and by U.S. policy, similar aid had not been provided to Azerbaijan's fellow combatant Armenia. The waiver permitted an increase in U.S. security and law enforcement aid to Armenia from a budgeted $5.96 million in FY2001 to an estimated $11.53 million in FY2002, and to Azerbaijan from $3.23 million to $11.33 million. A U.S.-financed center for de-mining opened in Armenia in March 2002. Similarly, the State Department announced in July 2002 that 25 U.S. Special Operations troops were assisting U.S. nongovernmental organizations in training troops in Azerbaijan in de-mining. In April 2002, President Bush issued Presidential Determination 2002-15, making Armenia, Azerbaijan, and Tajikistan eligible to receive U.S. arms exports and services in order to "strengthen the security of the United States."

A U.S.-Azerbaijan Security Dialogue working group has met since 1996 to discuss mutual security concerns. According to Deputy Foreign Minister Araz Azimov, a March 2006 meeting discussed anti-terrorism, non-proliferation, and energy security cooperation, Azerbaijan's relations with NATO and the OSCE, the settlement of the NK conflict, and the military situation in the Caspian region. Reportedly, Azimov will travel to the United States in April 2007 for security discussions. In February 2007, Assistant Secretary of Defense Peter Rodman visited Azerbaijan and met with Aliyev and other top officials. Reportedly, discussions were held on energy security, cooperation with NATO, and anti-terrorism assistance, among other issues, and were termed part of an "expanded dialogue" in the wake of President Aliyev's April 2006 U.S. visit. Marking a U.S. emphasis on encouraging the diversity of energy supplies in Europe, Secretary of State Rice and Foreign Minister Elmar Mamedyarov signed a memorandum of understanding in March 2007 on convening annual meetings to discuss energy security. Proposed talks would include the facilitation of trans-Caspian energy transport, the construction of pipelines to European markets, and aid in securing Azerbaijan's oil and gas transport networks.[69]

---

[68] Foreign Operations Appropriations for FY2007 (H.R. 5522; H.Rept. 109-486), passed by the House on June 9, 2006, recommended equal amounts of $790,000 for IMET and $3.5 million for FMF for Armenia and Azerbaijan (it did not earmark IMET and FMF funding for Georgia). H.R. 5522 was reported in the Senate with an amendment in the nature of a substitute on July 10, 2006. S.Rept. 109-277 followed the House in recommendations for IMET and FMF for Armenia and Azerbaijan and recommended $1.235 million for IMET and $10 million for FMF for Georgia. The Administration's budget request for FY2007 had called for $1.2 million for IMET programs and $58 million for FMF for Georgia, $790,000 for IMET and $3.5 million for FMF for Armenia, and $885,000 for IMET and $4.5 million for FMF for Azerbaijan. *Congressional Budget Justification for Foreign Operations FY2007.*

[69] *CEDR*, Apr. 2, 2006, Doc. No. CEP-950041; Apr. 4, 2007, Doc. No. CEP-950285; Feb. 12, 2007, Doc. No. CEP-950333; Feb. 13, 2007, Doc. No. CEP-950116; U.S. Department of State. *U.S.-Azerbaijan Memorandum of Understanding on Energy Security Cooperation in the Caspian Region*, Mar. 22, 2007.

Table 1. Armenia, Azerbaijan, and Georgia: Basic Facts

South Caucasian State	Armenia	Azerbaijan	Georgia	Total
Territory (square miles)	11,620	33,774	26,872	72,266
Population (mid-2006 est.; millions)	2.98	7.96	4.66	15.6
Gross Domestic Product (billion dollars, 2006 est., purchasing power parity)	15.99	58.1	17.8	91.89
GDP per capita (dollars)	5,400	7,300	3,800	5,500 (Avg.)
Proven Oil Reserves (billions of barrels)	0	7 to 13	0.3	7.3 to 13.3
Proven Natural Gas Reserves (trillion cubic feet)	0	30	0.3	30.3
Size of Security Forces (Military and Police/Border Troops)	48,389	81,740	24.598	51,575 (Avg.)
Cumulative U.S. Aid Budgeted, FY1992-FY2005 (billions of $)[a]	1,581.09	588.72	1,611.17	3,819.71
— Security & Law Enforcement Assistance (millions of $)[a]	131.57	90.24	379.02	600.94
FY2006 Budgeted Aid (millions of $)[a]	89.66	88.97	153.01	342.74
— Security & Law Enforcement Assistance (millions of $)	18.62	40.41	75.67	134.7
FY2008 Requested Aid (millions of $)[b]	40.781	27.409	66.421	134.611

Sources: Central Intelligence Agency. *The World Factbook*; Department of Energy. U.S. Energy Information Administration. *Caspian Sea Region* and *Country Analysis Briefs*; International Institute of Strategic Studies, *The Military Balance*, February 2007; Department of State. *U.S. Government Assistance to and Cooperative Activities with the New Independent States, FY2005 Annual Report*; The Secretary of State. *Congressional Budget Justification for Foreign Operations, FY2008*.

Note: The Continuing Appropriations Resolution, 2007 (P.L. 109-289), as amended, provides funding for foreign operations for FY2007 under the authority, conditions, and level of FY2006 funding, except as adjusted. Final figures are not available.

a. FREEDOM Support Act and Agency budgets; total includes region-wide funding.
b. FREEDOM Support Act and other Function 150 funds (does not include Defense or Energy Department funding or food aid).

Table 2: Security Funds Budgeted for Armenia, Azerbaijan, and Georgia, FY1992-FY2005

(millions of $)

Approp	Program	Armenia	Azerbaijan	Georgia	Total
DOD	Cooperative Threat Reduction	0	21.98	56.03	78.01
DOD/FBI	Counterproliferation	3.34	2.8	1.23	7.37
DOD	Warsaw Initiative (Partnership for Peace)	1.86	2.54	3.84	8.27[a]
DOE	Material Protection, Controls & Accounting	0.6	0.7	5.1	6.4
DOE	Non-Proliferation and International Sec. Programs	0.56	0.07	0.17	0.8
DOE/DOS/NRC	Nuclear Reactor Safety	55.02	0	3.32	58.34
DOS/DHS/CUS/DOJ	Law Enforcement Assistance	12.93	8.53	29.07	50.53
DOS/DHS/CUST	Export Control & Border Security (EXBS)	9.12	17.66	134.58	161.36
DOS/HHS/EPA	Non-Proliferation of WMD Expertise & Disarmament	10.75	0.75	16.63	28.21[a]
DOS	Foreign Military Financing	19.42	19.42	83.29	122.13
DOS	International Military Exchanges and Training	2.42	3.22	7.18	12.82
DOS	Peacekeeping Operations	0	5.0	15.54	20.54
DOS	Anti-Terrorism Assistance (ATA)	3.29	3.4	8.61	15.3
DOS/NSF	Civilian R&D Foundation (CRDF)	10.45	3.76	9.03	23.24
DOS	Russian Military Relocation	0	0	5.0	5.0
DOS	Small Arms & Light Weapons Destruction	0	0.4	0.41	0.81
DOE	Russian Transition Initiative	0.09	0	0	0.09
DOS	OSCE	1.72	0	0	1.72
TOTAL		**131.57**	**90.23**	**379.03**	**600.94[a]**

Source: State Department. Office of the Coordinator of U.S. Assistance to Europe and Eurasia. FY2005 data are included through mid-2005.

a. Includes Caucasus Regional Funds.

Georgia became eligible for security-related International Military Education and Training (IMET) and Foreign Military Financing (FMF) programs in FY1997. In 1999, the United States provided grant aid of ten UH-1H unarmed combat helicopters, six of which are operational, while the others are for spare parts. In FY1999, the U.S. military's European Command (USEUCOM) launched a U.S.-Georgian Peacetime Military Engagement Program after the South Caucasus states were included in USEUCOM's area of responsibility.

The Georgia Train and Equip Program (GTEP) grew out of a request made by former Georgian President Eduard Shevardnadze during his U.S. meeting with President Bush in October 2001 for help to resist Russia's request that it be allowed to pursue or attack Chechen rebels in Georgia, to combat terrorists who were hiding in Georgia's Pankisi Gorge area, and otherwise to keep terrorists from entering Georgia. Some of these terrorists allegedly had fled U.S.-led coalition operations in Afghanistan, so the U.S. Administration initially linked GTEP to OEF. Other reported U.S. aims included enhancing military reform by helping Georgia set up a National Command Center and bolstering Georgia's ability to guard its energy pipelines and ensure internal stability.[70]

The $64 million Georgia Train and Equip Program (GTEP) began in April-May 2002.[71] USEUCOM coordinated training in light infantry airmobile, mechanized, and mountain tactics, and medical and logistical methods by personnel from U.S. Special Operations Command Europe and from U.S. Marine Forces Europe, which took over training in late 2002. Four battalions of over 2,000 troops, a 270-member mechanized armor company, about 200 military, security, and border officers, and a small number of Interior (police) Ministry troops and border guards were trained. Equipment provided included small arms, communications and medical gear, uniforms, and construction materials for base refurbishment. The program formally ended in April 2004. U.S. officials deemed GTEP a model for programs planned for other countries and praised its contribution to Georgia's deployment of a 550-member infantry battalion to Iraq in March 2005, which boosted the number of its troops there from about 300 to about 850. Other GTEP-trained troops have been deployed to Afghanistan and Kosovo.[72]

---

[70] Department of Defense. *Press Release: Georgia "Train and Equip" Program Begins*, Apr. 29, 2002. See also Department of State. Embassy of the United States in Georgia. *Press Briefing on the Georgia Train and Equip Program at the Georgian Ministry of Defense*, May 7, 2002. Besides GTEP and its follow-on program (see below), the United States supports multilateral security efforts that aid Georgia, such as GUAM (named for its members, Georgia, Ukraine, Azerbaijan, and Moldova) and NATO's Partnership for Peace.

[71] GTEP was funded from a variety of sources, including Foreign Military Financing, International Military Education and Training, Peacekeeping Operations, border security and other foreign operations appropriations for FY2002 through FY2004; FMF in the 2002 Supplemental Appropriations Act (P.L. 107-38); and Defense Department drawdown funds.

[72] The 113th Shavnabada battalion (550 troops) was deployed to supplement a 300-member (continued...)

In 2004, USEUCOM developed a follow-on program to GTEP termed the Georgian Sustainment and Stability Operations Program (SSOP), for reasons that included helping Georgia sustain increased troop deployments to Iraq.[73] Funded at $60 million, the 16-month program began in January 2005 to bolster military reforms and to train four battalions of 2,000 troops.[74] The majority of training has taken place near Tbilisi at the Krtsanisi Training Area, where $6.5 million of SSOP funds were used to build barracks, classrooms, a dining hall, and other infrastructure. By the end of March 2006, the 21st, 22nd, and 23rd battalions had finished seventeen weeks of training and had been rotated to Iraq. Other training and equipping has involved the reconnaissance, engineer, and signal companies of the 1st Brigade; the military staffs and the logistics battalions of the 1st and 2nd Brigades; the general staff command and control elements, and the Operational Headquarters staff.[75]

In July 2006, following President Saakashvili's U.S. visit, the Administration announced that the SSOP would be extended another year and allocated $30 million for the program.

The 2006 National Security Concept of Georgia states that the country's defense capabilities "have significantly increased as a result of [U.S.] assistance programs" and that troops trained under GTEP and SSOP "constitute the core of the Georgian Army." GTEP and SSOP have provided training to a major portion of Georgia's armed forces. Among the successes of the programs may have been the encouragement of democratic values in the armed forces and an increase in regional stability, according to some observers.[76]

---

[72] (...continued)
group which had been deployed in Nov. 2004. On the end of GTEP, see Embassy of the United States in Georgia. *Embassy News: GTEP Program Graduates Last Group of Georgian Soldiers*, Apr. 24, 2004. See also U.S. Embassy in Georgia. *U.S. Ambassador Thanks Marines, GTEP Cadre*, Apr. 21, 2004. Hamlin Tallent, the Director of EUCOM's European Plans and Operations Center, praised training that supported Georgia's troop deployment to Iraq. See House International Relations Committee. Subcommittee on International Terrorism and Nonproliferation. *Written Statement*, Mar. 10, 2005.

[73] Deputy Assistant Defense Secretary James MacDougall, quoted by The Jewish Institute for National Security Affairs, *JINSA Online*, Jan. 12, 2005, [http://www.jinsa.org]. According to some reports, Defense Secretary Donald Rumsfeld had pledged added military assistance to Georgia — in return for an increased deployment — at an Oct. 2004 meeting in Bahrain with coalition defense ministers. *ITAR-TASS*, Oct. 11, 2004.

[74] According to testimony by Rear Admiral Hamlin Tallent, funding for SSOP is provided for FY2005-FY2006 under U.S. Code Title 10 (covering armed forces, $27.1million), U.S. Code Title 22 (covering foreign affairs, $17.33 million), and other authorities and sources (including Excess Defense Articles and donor nation aid, $16.5million). *Written Statement*, Mar. 10, 2005.

[75] Gen. James Jones, Commander of EUCOM and the Supreme Allied Commander, Europe, testified in early 2006 that the United States had trained over 1,000 Georgian troops who had been deployed on rotation to Iraq. U.S. Senate. Committee on Armed Services, Mar. 7, 2006.

[76] According to Charles Western, Commander of Task Force GTEP, during Georgia's late
(continued...)

Georgian and international media have provided some information on possible problems associated with GTEP and SSOP. Russia's relations with the United States have appeared strained at times by concerns by some Russian officials about U.S. military training in what they consider a traditional sphere of Russian influence. President Putin, however, has acknowledged the useful role played by U.S.-trained Georgian troops in counter-terrorism efforts in the Pankisi Gorge. Sensitive to Russian concerns, U.S. and Georgian officials gave assurances to Russia in 2002 that U.S. military trainers would not enter the Pankisi Gorge to assist GTEP-trained and other Georgian troops to eliminate alleged terrorists based there. In contrast to Putin's earlier stance, Russia formally protested to the United States in mid-2004 about the alleged involvement of some U.S.-trained troops in Georgia's actions in its breakaway South Ossetia region.[77]

Some problems were reported in finalizing applicants for the first phase of SSOP training in early 2005, particularly in recruiting some technically-skilled personnel, which allegedly caused some delay in beginning the program.[78] One Georgian report alleged that there was a lack of discipline in some U.S.-trained units.[79] According to another Georgian report, SSOP training and associated construction of facilities at the Krtsanisi Training Center did not meet expectations.[80] Some Georgian legislators and others alleged that many troops trained under GTEP did not re-enlist when their service contracts ended in 2005, resulting in a loss of expertise among active duty personnel. They also questioned whether some military officials were resisting SSOP and other U.S. and NATO-backed military reforms.[81] Some Georgian observers have cautioned that Georgia's relatively large-scale involvement in SSOP and deployments to Iraq might divert Georgia from other vital national security concerns, although most Georgian officials view these efforts as boosting the professionalism of the armed forces and moving Georgia toward NATO membership.[82]

Other USEUCOM initiatives in the region include the South Caucasus Clearinghouse, the Caspian Guard program, and the Caspian Hydrocarbons initiative.

---

[76] (...continued)
2003 "rose revolution," "the GTEP battalions told us that they did not want to use their troops against their own people," and this "may have had an influence on the Defense Minister's decision not to use force." *Leatherneck*, Feb. 2004, pp. 26-28. For an argument that GTEP enhanced regional stability, see Peter Forster, *The Paradox of Policy: American Interests in the Post-9/11 Caucasus*, National Defense Academy and Bureau for Security Policy, Vienna, Feb. 2004.

[77] *New York Times*, Mar. 2, 2002, p. 9; Jim Heintz, *Associated Press*, June 11, 2004.

[78] U.S. European Command. *SSOP Signing Ceremony and Press Briefing Transcript*, Mar. 29, 2005; *CEDR*, Feb. 2, 2005, Doc. No. CEP-249.

[79] *CEDR*, May 17, 2005, Doc. No. CEP-20001.

[80] Koba Liklikadze, as reported in Foreign Broadcast Information Service (CEDR). *Central Eurasia: Daily Report*, Jan. 18, 2006, Doc. No. CEP-20003.

[81] *CEDR*, Oct. 27, 2005, Doc. No. CEP-27165; Jan. 3, 2007, Doc. No. CEP-21002.

[82] *CEDR*, Nov. 15, 2004, Doc. No. CEP-59.

The Clearinghouse aims to facilitate cooperation by sharing information on security assistance programs among both donor and recipient countries. Gen. Jones testified that the Caspian Guard program, launched in 2003, enhances and coordinates security assistance provided by U.S. agencies to establish an "integrated airspace, maritime and border control regime" for the littoral states of Azerbaijan and Kazakhstan. The Hydrocarbons initiative provides maritime security and crisis response and consequence management assistance to help the regional states protect their pipelines and other energy transport to the West.

Gen. Charles Wald, deputy head of USEUCOM, in November 2004 suggested that the Administration was exploring the possible establishment of "cooperative security locations" — sites without a full-time U.S. military presence that are used for refueling and short-duration deployments — in Azerbaijan or Georgia.

Nonproliferation Aid. The United States has gained greater support in the region for combating the proliferation of weapons of mass destruction (WMD) by emphasizing how this goal enhances the security interests of the states. The United States has been the largest aid donor for such efforts. The Departments of Defense (DOD), Energy (DOE), and State (DOS) have been the main agencies providing training and equipment to help prevent nuclear smuggling and other proliferation threats in the South Caucasus states.[83] DOS funds the Export Control and Related Border Security Program (EXBS), which improves export control capabilities in the Soviet successor states to prevent proliferation of WMD and related components. The Commerce Department, DOE, Customs and Border Protection Service, and Coast Guard help implement EXBS. DOE's Second Line of Defense Program places radiation detection systems at ports of entry. DOD's Proliferation Prevention Program (PPP; launched in FY2003) was designed to upgrade the abilities of non-Russian Soviet successor states to deter and interdict smuggling of WMD and related materials. PPP coordinates with these and other DOD programs, including the International Counter-proliferation Program (ICP; launched in FY1997) that conducts activities with the FBI and the Customs and Border Protection Service.[84]

An ICP was launched in Armenia in FY1999, which included WMD detection and interdiction training. Also in FY1999, DOS provided $1.9 million for Armenia and Azerbaijan to expand the Tracker Automated Licensing System to help them track exports of proliferation concern. EXBS aid helped Armenia establish an interagency export-control coordinating commission and has provided training and equipment. Through FY2005, DOE and other agencies have provided more than $55 million to enhance the safety and security of Armenia's Metzamor nuclear reactor.[85]

---

[83] Government Accountability Office. *Nuclear Non-proliferation: U.S. Efforts to Help Other Countries Combat Nuclear Smuggling Need Strengthened Coordination and Planning*, May 16, 2002; *Combating Nuclear Smuggling: Corruption, Maintenance, and Coordination Problems Challenge U.S. Efforts to Provide Radiation Detection Equipment to Other Countries*, Mar. 14, 2006.

[84] Department of Defense. *Comprehensive Threat Reduction Annual Report to Congress*, 2004, 2005, 2006, 2007, 2008.

[85] In May 2002, the United States imposed sanctions on the Armenian firm Lysine Open (continued...)

Beginning in FY1999, an ICP in Azerbaijan has provided training courses on crime scene investigation, criminal investigation, radiation detection and response, and other courses relevant to WMD counter-proliferation.[86] In January 2004, the United States and Azerbaijan signed an agreement implementing a PPP in Azerbaijan to enhance the country's ability to detect and interdict WMD on vessels transiting the Caspian Sea. The projected $63 million in five-year assistance is being used to improve maritime surveillance equipment and procedures, repair and upgrade boats, provide WMD detection and other equipment for boarding crews, and construct or upgrade command and control, maintenance, and logistics facilities to expand the patrol areas of the Border Service-Coast Guard. Beginning in April 2004, detection equipment deliveries began, a radar and a data network were set up, and a boat maintenance regime was put in place. In November 2006, DOD completed construction of a boat basin for the Border Service-Coast Guard to extend their range of patrols. DOD plans for the eventual transition of all new proliferation prevention capabilities to Azerbaijan.

The United States and Georgia signed a CTR umbrella agreement in 1997 (and extended in 2002) for proliferation prevention and the promotion of defense and military contacts to encourage demilitarization, defense reform, proliferation prevention, and regional stability and cooperation. In 1998, the two sides signed an export control systems implementing agreement (extended in 2002). At Georgia's behest, the United States used emergency CTR funds to remove 8.8 lbs. of highly enriched uranium and 1.8 lbs of spent fuel from an Institute of Physics research reactor near Tbilisi in April 1998. The United States had earlier provided security assistance to safeguard the material prior to removal, after two criminal attacks on the reactor facility.[87] In 1998-1999, DOD provided two CTR-funded patrol boats to enhance export controls. Some CTR funding reportedly was used to support the SSOP. The United States has provided nearly $85 million in DOD, DOS, and DOE aid through FY2005 to help Georgia prevent the proliferation of WMD.[88]

Counter-Narcotics Aid. There is rising U.S. concern that drugs transiting the South Caucasus may eventually reach the United States in major quantities, since Latin American and other international organized groups have become involved in the wider regional drug trade. Despite efforts to eliminate them, terrorist groups still in the region may be using drug trafficking to help finance their operations, so

---

[85] (...continued)
Joint Stock Co. and its former owner, Armen Sarkisyan, for transferring WMD technology to Iran, specifically, transfer of biochemical equipment. *Federal Register*, May 16, 2002, pp. 32983-32984; *RFE/RL Newsline*, May 17, 2002.

[86] Defense Threat Reduction Agency. *International Counter-Proliferation Program Conducts Field Exercise in Azerbaijan*, June 8, 2006.

[87] *NIS Nuclear Profiles Database*. Center for Nonproliferation Studies, Monterey Institute of International Studies.

[88] The United States in early 2003 raised concerns that unemployed Georgian technicians were servicing military aircraft or assisting in nuclear programs in Iran. Then-President Shevardnadze verified that Georgian citizens had illicitly aided Iran. *CEDR*, Jan. 12, 2003, Doc. No. CEP-23; Jan. 13, 2003, Doc. No. 167; Jan. 15, 2003, Doc. No. 282; *Agence France-Presse*, Jan. 14, 2003.

counter-drug activities may support counter-terrorism.[89] U.S. policy also recognizes the problems of rising crime, corruption, and instability posed by illegal narcotics production, use, and trafficking in the region. These problems are increasingly emphasized by regional governments that urge the United States to take the lead in combating rising drug trafficking from Afghanistan. Dissatisfaction with U.S. actions in this area eventually could harm U.S. relations with the governments.

Among U.S. efforts, the FBI, Department of Justice, U.S. Customs Service, the Drug Enforcement Administration, and the State Department's Bureau of International Narcotics and Law Enforcement Affairs have provided training in counter-narcotics to police, customs, and border control personnel in the region. The waiver of Sec.907 of the Freedom Support Act has permitted U.S. government-to-government aid for counter-narcotics programs in Azerbaijan. Significant U.S. assistance to Azerbaijan was reported for FY2006, including the provision of trucks for Customs Contraband Teams, an assessment of security along the Iranian border for the Border Guards, the contribution of fencing and construction materials to rebuild watchtowers along the Iranian border, a USEUCOM assessment of the capabilities of the Border Guard's Air Wing, and the equipping of a maritime base near Astara. A U.S.-supplied short-range radar near Astara was upgraded to monitor and patrol the southern Caspian Sea and maritime boundaries. Four patrol and fast response boats will be delivered to the base in FY2007.[90]

Safety of U.S. Citizens and Investments

U.S. firms are the largest cumulative investors in Azerbaijan, investing nearly $4 billion, or about one-third of all foreign investment. The U.S. Commerce Department warned in late 2004 that corruption impedes the ability of many companies to do business and has driven some Western firms to leave Azerbaijan. Businesses indicate that some customs and tax personnel and contract dispute arbitrators may be corrupt. Particularly in the non-energy sector, political connections have been used to reward some domestic businesses, including cotton- and tobacco-related firms, resulting in harm for U.S. and other foreign investors.

Foreign direct investment in Georgia has increased since its "rose revolution," mainly involving investment by BP in oil and gas pipeline infrastructure. Many medium and small investors allegedly remain wary.[91] The U.S. Embassy in Georgia reports conditions similar to those in Azerbaijan, warning that many U.S. and foreign firms have suffered from official corruption. The embassy also warns that there are a few criminalized sectors of the economy, such as gasoline and cigarette distribution, that foreign investors should avoid. U.S. foreign direct investment

---

[89] U.S. Senate. Judiciary Committee. *Narco-Terrorism.* Testimony of Raphael Perl, May 20, 2003.

[90] *International Narcotics Control Strategy Report*, Mar. 1, 2007.

[91] U.S. Department of Commerce. Bureau of Economic Analysis. *U.S. Direct Investment Abroad*, 2005, historical-cost basis, [http://www.bea.gov]; Structure and Dynamics of Foreign Investments in Georgia, *Georgian Economic Trends*, Georgian-European Policy and Legal Advice Center, December 2005; *CEDR*, Mar. 24, 2006, Doc. No. CEP-20002.

(FDI) in Georgia was about $70 million in 2005, about 16% of total FDI of $447.8 million in 2005. The State Department suggests that U.S. FDI increased in 2006.

U.S. government facilities worldwide were on a heightened state of alert after September 11, 2001, and U.S. embassies were subject to temporary closure for security reasons. In March 2003, U.S. embassies in the region issued Warden's Messages warning that U.S. citizens and interests worldwide were at risk of terrorist attacks. There were some anti-U.S. demonstrations in early 2003 in the region related to the Iraq conflict, but the State Department reported no significant violence against U.S. interests.

In Georgia, the State Department has advised U.S citizens to avoid travel to South Ossetia, the Pankisi Gorge, and to other border areas near Russia's Chechnya and Dagestan regions. It also has warned Americans that areas of relative lawlessness include South Ossetia, upper Svanetia, Samtskhe-Javakheti, and Abkhazia and areas near the latter's border with the rest of Georgia.

The U.S. Embassy in Tbilisi warns that high rates of poverty have contributed to an increase in violent crimes against Americans and other foreigners who are viewed as wealthy. Despite Georgia's efforts to combat corruption and increase the caliber of law enforcement personnel, criminals continue to operate freely in Tbilisi. The State Department in January 2007 warned U.S. citizens to "exercise basic security precautions" because of the serious crime situation in Georgia, including carjackings, armed robberies, and other "violent attacks." During President Bush's visit to Georgia on May 10, 2005, a hand grenade was thrown toward a podium containing Presidents Bush and Saakashvili. It failed to explode. In late July, a suspect possibly linked to former Ajarian politician Aslan Abashidze was taken into custody. In June 2006, the State Department reiterated a warning that employees of U.S. businesses should avoid the Turtle Lake area near Tbilisi because of robberies. A more secure U.S. Embassy building opened in Tbilisi in December 2005.

The State Department has warned U.S. citizens in Armenia that foreigners have been the targets of violent assaults and robberies (although the general level of violent crime is less in Yerevan than in many U.S. cities). Several U.S. investors report being victims of financial scams. The U.S. Embassy reported in March 2006 that it had designated a section of highway near NK as off limits to U.S. government travelers because of the danger of ceasefire violations. U.S. citizens are unlikely to be the targets of political violence, according to the State and Commerce Departments.[92] A more secure U.S. Embassy building opened in Yerevan in May 2005.

In Azerbaijan, members of the indigenous terrorist group Jayshullah were convicted in 2001 for planning an attack against the US Embassy and other terrorism. Homeowners who lived near the U.S. embassy in Baku picketed in January 2005 over the razing of their homes for security purposes. U.S. citizens traveling to

---

[92] U.S. Department of Commerce and U.S. Department of State. *Doing Business in Armenia: A Country Commercial Guide for U.S. Companies*, Mar. 27, 2007. U.S. Embassy, Yerevan. Warden's Message. *Road and Travel Safety*, Mar. 9, 2006.

Azerbaijan are advised that the occupied areas around NK are dangerous because of ceasefire violations and the presence of minefields and that travel into NK is not possible from Azerbaijan. U.S. travelers were warned in July 2006 to be on guard against violent acts and possible terrorist attacks against Americans in the face of Israeli military actions in Lebanon. The Warden's Report for January 2007 warned U.S. citizens that petty crime such as pick-pocketing and taxi shakedowns (charging onerous fares) remained prevalent and that police harassment occurred throughout the country. Warden's Notices in November 2006 and January 2007 cautioned U.S. citizens that political opposition demonstrations, even if authorized and intended to be peaceful, could turn confrontational and escalate into violence.[93]

Issues for the 110th Congress

Should the United States Play a Prominent Role in the South Caucasus? While a consensus appears to exist among most U.S. policymakers on the desirability of fostering democratization, the creation of free markets, trade and investment, integration with the West, and responsible security policies in the South Caucasus states, others urge different emphases or levels of U.S. involvement. Some consider the United States as being the "indispensable power," leading the way in fostering peace, stability, security, and development in the region.

Critics assert that the United States has historically had few interests in this region, and argue that developments there are largely marginal to U.S. interests.[94] In any event, they argue, EU expansion is bringing the South Caucasus into closer proximity to Europe, making the region a higher priority interest of Europe than of the United States. They advocate limited U.S. involvement to ensure general U.S. goals of ameliorating strife and instability, fostering democratization and regional cooperation, and improving human rights and the quality of life.

What are U.S. Interests in the South Caucasus? One view holds that greater U.S. assistance for the region to bring stability could have a positive effect on North Caucasian areas of Russia and on Turkey, as well as on European security. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, terrorism, and Islamic extremism and bolster independence of the states. More U.S. ties with the region might serve to "contain" or modify Iranian influences, particularly U.S. military support that would help the South Caucasus states to resist some threats such as insurrections. Some also argue that improved U.S. ties with Azerbaijan would benefit U.S. relations with other Islamic countries, particularly Turkey and the Central Asian states. Many add that Caspian region oil and natural gas deliveries would expand world supplies, making the West somewhat less vulnerable to supply cutoffs in the Middle East. The Administration also has pursued close ties with Armenia and Georgia because of their professions of

---

[93] U.S. Department of Commerce and the Department of State. *Azerbaijan: A Country Commercial Guide,* 2005; U.S. State Department. *Consular Information Sheet, Azerbaijan*, Mar. 31, 2006.

[94] Joe Barnes, U.S. National Interests, in *Energy in the Caspian Region*, ed. by Yelena Kalyuzhnova, Amy Jaffe, Dov Lynch, and Robin Sickles, New York: Palgrave, 2002, pp. 212-233.

democratic principles, concerns by Armenian-Americans and others over Armenia's fate, and appreciation among U.S. policymakers for Georgia's pro-Western policies. They also point to the prompt cooperation offered to the United States by Armenia, Azerbaijan, and Georgia in the aftermath of September 11, 2001, and their military support for U.S. post-Saddam peacekeeping in Iraq.

Other observers doubt that there is a strategic "power vacuum" in the region that the United States must fill. U.S. aid for humanitarian and counter-proliferation purposes should continue, according to this view, but other aid should be curtailed, particularly since these states fall short of U.S. goals for democratization, human rights, and peace settlements. Great caution is in order in adopting policies and actions that will heavily involve the United States in a dangerous region beset by ethnic and civil conflicts.[95] Some observers question whether U.S. interests are threatened by alleged al Qaeda or other international terrorists in the region. They also question whether the amounts of oil and gas in the Caspian region merit U.S. involvement. Many in Congress and elsewhere object to any substantial U.S. assistance to Azerbaijan until the country moves toward peace with Armenia and NK.

What Roles Should Outside Powers Play in the Region? Some U.S. policymakers consider U.S.-Russian cooperation on arms control and anti-terrorism to be top priorities and argue that the United States should seek to cooperate with Russia in the South Caucasus on these priorities.[96] Despite recent problems in U.S.-Turkish relations, some observers advocate a major role for Turkey to counter undue influence by Iran, including by calling for closer EU-Turkish cooperation.

The U.S. policy of engagement with both Russia and the South Caucasus states could have become problematic if Russia had pursued a more assertive foreign policy in the region that clashed with U.S. interests. However, developments in Georgia, including Russia's agreement to pull out troops and the opening of the BTC pipeline and the SCP, have reduced Russia's undue influence in the region, according to some observers. Nonetheless, those who view Russia as encouraging separatism rather than conflict resolution in the region urge stronger U.S. positive or negative inducements to Russia.[97]

---

[95] Zbigniew Brzezinski has warned that the South Caucasus and Central Asian regions are the "Eurasian Balkans." See *The Grand Chessboard*. New York, Basic Books, 1997. Similarly, a group of analysts in 2000 assessed the South Caucasus as potentially more dangerous than the Balkans as a "theater of conflict, human suffering, and escalating geopolitical instability in the wider European area." *A Stability Pact for the Caucasus*, Brussels, Belgium, Centre for European Policy Studies, January 2000.

[96] Stephen Blank, *Problems of Post-Communism*, January-February 2003, pp. 8-21; Olga Oliker and Tanya Charlick-Paley, *Assessing Russia's Decline*, Santa Monica, CA: RAND, 2002, p. 120. Analyst Martha Olcott has argued that the United States should recognize that Russia has important economic and security interests in the Caspian region, and place greater stress on cooperating with Russia on regional energy projects, particularly since we also want access to Russian energy. Testimony. Senate Foreign Relations Committee. Subcommittee on International Economic Policy, Apr. 8, 2003.

[97] *Caspian Energy Update*, Center for Strategic and International Studies, Feb. 25, 2000.

How Significant Are Regional Energy Resources to U.S. Interests?

The *National Security Strategy of the U.S.A.* maintains that U.S. energy security and the global economy can be strengthened by expanding the sources and types of global energy supplied, including from the Caspian region.[98] Caspian regional oil exports from Azerbaijan, Kazakhstan, and Turkmenistan Russia might have constituted about 1% of world oil exports and gas exports might have constituted about 2% in 2004, according to the U.S. Energy Department.[99] Oil and gas exports are projected to increase in coming years, making these countries of incremental significance as world suppliers, according to this view. The May and November 2002 U.S.-Russia summit statements on energy cooperation appeared to mark a U.S. policy of cooperation with Russia in the development of Caspian oil resources. However, the United States backed the construction of the BTC oil pipeline and the SCP for gas in part as hedges against a possibly uncooperative Russia. The Administration and others also argued that the economic benefits gained by the region by developing its energy resources would be accompanied by contractual and other rule of law developments, which could foster regional stability and conflict resolution.[100]

The Administration's May 2001 National Energy Policy report recommended that the President direct U.S. agencies to support building the BTC oil pipeline, expedite use of the pipeline by oil companies operating in Kazakhstan, support constructing a gas pipeline from Azerbaijan to Turkey, and otherwise encourage the Caspian regional states to provide a stable and inviting business climate for energy and infrastructure development. The September 11, 2001, attacks appeared to intensify the Administration's commitment to develop Caspian energy, the BTC pipeline, and the SCP as part of a strategy of reducing the vulnerability of the United States to possible energy supply disruptions by increasing and diversifying world energy supplies.

Critics of Administration policy raise concerns about regional stability, ownership of Caspian Sea fields, and the size of regional reserves.[101] They question whether the oil and other natural resources in these new states are vital to U.S. security. Some observers also reject the argument that energy and pipeline development may boost economic development — rather than merely the wealth of

---

[98] The White House. *National Security Strategy of the United States of America*, Apr. 29, 2003. Analyst Zeyno Baran states that most speeches delivered by U.S. Caspian energy envoys included the U.S. policy principles of strengthening the independence of Caspian states, bolstering regional cooperation, enhancing global energy supply diversification, and increasing investment opportunities for U.S. firms. *Washington Quarterly*, Winter 2002, p. 222.

[99] Percentages derived from data on production, consumption, and exports by the Energy Department, Energy Information Administration, [http://www.eia.doe.gov/]. See also CRS Report RS21190, *Caspian Oil and Gas: Production and Prospects*, by Bernard Gelb.

[100] Thomas Waelde, Sergey Vinogradov, and Armando Zamora, *Caucasian Regional Studies*, [http://poli.vub.ac.be/publi/crs/eng/Vol5/].

[101] Eric Rasizade, *Comparative Studies of South Asia*, nos. 1-2, 2002; Anush Begoyan, *Iran and the Caucasus*, vol. 8 issue 1, 2004, pp. 141-155. At least until the run-up in crude oil prices, critics of Administration policy also questioned the economic viability of Ceyhan and trans-Caspian pipeline routes compared to routes through Russia or Iran.

regional elites — and thereby foster the settlement of ethnic and civil conflicts in the region. Instead, they urge greater attention to conflict resolution and broader-based economic and democratic reforms that would better serve the people of the region.[102]

What U.S. Security Involvement is Appropriate? Observers who urge greater emphasis on U.S. security assistance to the South Caucasus states argue that such aid serves crucial U.S. interests. Without greater assistance, these states may not consolidate their independence. The states remain vulnerable to international terrorist groups and to possible coercion from neighboring countries.[103] These observers emphasize that U.S. customs and border training and equipment and other nonproliferation aid prevent WMD technologies, materials, and personnel from falling prey to terrorist states or groups and from being smuggled through the region. They also argue that the states may not be able to adequately safeguard their energy pipelines from terrorists or criminals.

They urge greater U.S. military-to-military assistance, including for military institution-building, basic soldier life support, and military education and training programs that bolster human rights. Such aid, in this view, will foster the creation of a professional, Western-style military that is better able to resist external security threats, and will foster democratic civil-military relations that reduces the chance of military coups. Greater U.S. support for PFP training — involving cooperation among regional militaries — could spur these states to work together. These observers also argue that as Iran increases its military capabilities, including missiles and possibly nuclear weapons, the South Caucasus states may necessarily seek closer countervailing ties with the United States. Alternatively, the region might feel pressured to seek greater accommodation with Iran, including by distancing itself from the United States.

Critics question whether the region is a vital U.S. interest necessitating enhanced U.S. security commitments and aid. They warn that the stepped-up U.S. security training and arms transfers has added to arms races in the region and tensions with other outside powers. They argue that the United States should primarily seek to encourage conflict resolution and regional cooperation in demilitarization. They oppose providing formal security guarantees or establishing military bases in the

---

[102] Jaffe and Manning, pp. 113, 118; Michael Evans, *Strategic Review*, Spring 1999, pp. 4-10; Peter Rutland, *Russia and Eurasian Review*, May 13, 2003. Analyst Edward Chow has argued that "by focusing too much on energy relationships ... we give the impression that we care less about improvement in fundamental conditions like the rule of law, transparency, and more political openness .... Russia, Central Asia, and the Caucasus are important to U.S. foreign policy interests whether these countries have oil or not." Testimony. Senate Foreign Relations Committee. Subcommittee on International Economic Policy, Apr. 30, 2003.

[103] Oliker and Charlick-Paley offer a possible scenario of clashes between Georgian and Russian troops in Georgia that could trigger a U.S. military intervention. They suggest that closer U.S. cooperation with Russia in South Caucasian affairs would reduce the likelihood of such a scenario (pp. 107-120).

region, and endorse making it plain that any U.S. security assistance provided implies no defense "umbrella."[104]

Should the United States Try to Foster Democratization? Some observers argue that the major security problems faced by the South Caucasus states are largely the result of inadequate or fragile democratization. After the "rose revolution" in Georgia and a relatively free and fair presidential election in early 2004, the government has been considered legitimate by most citizens. The illegitimacy of the governments in the eyes of many citizens in Armenia and Azerbaijan precludes civil and ethnic peace and sustainable development and invites foreign meddling, in this view. Of particular concern, these observers warn, is a possibly destabilizing political succession crisis in Armenia in 2008, when current President Kocharyan is to step down in accordance with constitutional term limits.[105] Some observers recommend greater U.S. and Western attention to bolstering social programs so that public demands that are unleashed by liberalization do not destabilize fragile democratic institutions.[106]

The United States has provided most assistance for democratization to Armenia, and somewhat less for Georgia. U.S. aid for democratization in Azerbaijan was explicitly permitted by Congress in FY1998 and thereafter. While the U.S. Agency for International Development (USAID) argues that such aid has bolstered democratization, including the role of nongovernmental organizations, it also acknowledges that democratization is not firmly established, and that democratization has faced problems in Armenia and Azerbaijan.[107] The 2003 Armenian presidential and legislative elections did not mark substantive further democratization, according to some observers. While there was some question about the direction of democratization in Azerbaijan before the 1998 presidential race, many observers viewed irregularities during that election, municipal elections in 1999, the 2000 legislative race, and the 2003 presidential contest as evidence of halting pluralism. Although OSCE monitors reported large-scale irregularities during the 2005 legislative election, particularly in vote-counting, the U.S. Administration viewed the race as indicating the Azerbaijani government's commitment to democratization.[108]

---

[104] These views were more prevalent prior to Sept. 11, 2001. John Kreul argued against a U.S. "strategy that entails deeper defense relationships and hints of security guarantees" to Caspian regional states despite risks "which appear to be out of proportion to U.S. interests there." *National Security Watch*, Association of the U.S. Army, Institute of Land Warfare, June 15, 2000. On the unintended consequences of U.S. security assistance, see Jamestown Foundation, *Russia and Eurasia Review*, May 13, 2003.

[105] Alexander Rondeli, *Crossroads and Conflict*, p. 48.

[106] S. Neil McFarlane, *Government and Opposition*, no. 3, 1997, pp. 399-420; S. Neil McFarlane, *Western Engagement in the Caucasus and Central Asia*, London, Royal Institute of International Affairs, 1999, pp. 48, 60.

[107] U.S. Agency for International Development. *Foreign Aid in the National Interest*, 2002, pp. 37, 39, 46.

[108] U.S. Department of State. *Press Statement: Azerbaijan Parliamentary Elections*, Nov.

(continued...)

Critics of U.S. democratization aid have suggested that the Administration's stress on gradual and peaceful political change in the South Caucasus connotes U.S. support for the stability of current leadership. They contend that U.S. support may unwittingly assist the regimes to stay in power, make peaceful political succession more problematic, and encourage the countervailing rise of extremist parties and groups as alternative channels of dissent. They urge greater adherence to the policy that "aid follows reform," so that U.S. assistance is reduced to regimes that fail to democratize and continue to violate human rights.[109]

---

[108] (...continued)
7, 2005.

[109] Deputy Assistant Secretary of State Bryza stated in June 2006 that "just because Azerbaijan hasn't gone as far as we would like on democracy doesn't mean we're going to ignore our energy interests or our military interests. That's not to say that our energy interests or our military interests or our counter-terrorism interests are driving us to ignore democracy....we have to pursue a balance." Caucasus: U.S. Says Aliyev, Kocharyan Must Show 'Political Will,' *RFE/RL*, June 23, 2006.

Appendix 1: Selected Players

Russia. According to many observers, the role of Russia — the former colonial power — in the South Caucasus is the most serious potential threat to the security and independence of the region's states. Perhaps until recently, Russia has appeared to place a greater strategic importance on maintaining influence in the South Caucasus region than in much of Central Asia (except Kazakhstan). Its early determination to remain closely involved in the region included its pressure on Azerbaijan and Georgia in 1993 to get them to join the CIS and sign the Collective Security Treaty, and on Georgia to acquiesce to Russian military bases on its soil.[110]

The elevation of Vladimir Putin to Russia's presidency marked a more coordinated and activist Russian stance toward the region. Then-Acting President Putin approved a "national security concept" in January 2000 that termed foreign efforts to "weaken" Russia's "position" in the South Caucasus, or to thwart "integrative processes" in the CIS, as security threats. It also calls for protecting Russia's economic interests in routes for energy flows from the Caspian and elsewhere. A new military doctrine approved by Putin also stressed these threats, including warnings that NATO might intervene in conflicts in the CIS, such as the NK or Abkhaz conflicts, as it did in the Kosovo region of Yugoslavia.[111] Russia's 1999-2005 Chechnya campaign, in this view, demonstrated Putin's determination to grasp for regional influence over the South Caucasus. Other observers argue that such Russian intentions, however, may in fact be unattainable because of Russia's strategic weakness.[112]

Putin launched new regional initiatives, including an agreement in July 2000 to hold regular biannual "Caucasus Four" summits focusing on deepening Russia's influence through dispute mediation and security cooperation (only a few ever were held). Another agreement in September 2000 between Russia, Iran, and India called for creating a North-South International Transport Corridor (NSTC).[113] According to Russian media, major reasons for pursuing a Russian-oriented NSTC included counteracting the regional development of routes bypassing Russia, such as the BTC oil pipeline and SCP, and the Russian strategic concept's call for protecting Russia's

---

[110] The Russian military reportedly provided assistance for overthrowing the Azerbaijani government, opening up Heydar Aliyev's return to power, after which Azerbaijan joined the CIS. Similarly, the Russian military assisted then-President Shevardnadze in defeating insurgency, after which Georgia joined the CIS.

[111] In contrast, a 1997 draft of the national security concept emphasized the importance of a democratizing CIS, rather than a militarized CIS protecting against outside threats. Herzig, p. 49. See also Stephen Blank, *Threats to Russian Security*, U.S. Army War College, July 2000, pp. 18-19.

[112] *The Economist*, Aug. 19, 2000; Stephen Blank, *U.S. Military Engagement with Transcaucasia and Central Asia*, U.S. Army War College, June 2000, pp. 22-35.

[113] Russian and Iranian transport ministers discussed setting up such a transport corridor at a meeting in Sept. 1999. India was interested in sending an experimental cargo shipment to Scandinavia along this corridor. *Interfax,* Sept. 14, 1999.

interests in the Caspian region.[114] In May 2002, an inter-ministerial agreement was signed between Russia, Iran, and India inaugurating the NSTC with termini at Bombay and St. Petersburg. Shipments along the route began in July 2004, and at a meeting in late 2004, representatives from Russia, Kazakhstan, India, Iran, Azerbaijan and Oman discussed measures to expedite shipping. The opening of the BTC pipeline and the SCP, however, have been a blow to Russia's rationales for the NSTC.

Armenia has been concerned about proposals to build regional railroads that would bypass the country, which it argues will further isolate it from transport routes. Accords were signed in 2004-2005 between the state-controlled Russian Railways Company and Azerbaijani and Iranian railway officials to form a consortium to build a 250-mile railway from Azerbaijan's town of Astara to Iran's towns of Resht and Kazvin. This proposed railway, if built, would link with others to the north and south, permitting land-based transport of cargo from Europe to the Persian Gulf, and would supplement existing transport by ferry from Russian and Iranian Caspian Sea ports.[115] Armenia has urged Russia to refurbish a railway through Abkhazia (and has hoped that Georgia would permit transport via this railway).[116] The presidents of Turkey, Azerbaijan, and Georgia signed a declaration of intent in May 2005 to build a railway eventually linking Kars in Turkey to Baku in Azerbaijan. Financing of the railway reportedly was agreed upon by the parties in January 2007. Armenia has objected that this project bypasses Armenia.[117] Armenia in late 2006 reportedly was exploring granting a concession to the Russian Railways Company to revamp Armenia's railways. Russia's interest in these railways includes links with Iran.[118]

Successive U.S. Administrations have generally viewed a democratizing Russia as able to play a stabilizing role in the South Caucasus, though they have also

---

[114] *CEDR*, Jan. 15, 2000, Doc. No. CEP-162; Apr. 26, 2000, Doc. No. CEP-15; Sept. 15, 2000, Doc. No. CEP-193; Nov. 10, 2000, Doc. No. CEP-58; Apr. 2, 2002, Doc. No. CEP-201; May 23, 2002, Doc. No. CEP-150; Aug. 5, 2002, Doc. No. CEP-309; May 5, 2003, Doc. No. CEP-204.

[115] *CEDR*, May 20, 2004, Doc. No. CEP-302; Feb. 10, 2005, Doc. No. CEP-109; *ITAR-TASS*, May 3, 2005; May 5, 2005; President of OAO RZHD Vladimir Yakunin visited the Islamic Republic of Iran, *International Congress of Industrialists and Entrepreneurs News*, Nov. 6, 2006.

[116] *CEDR*, Feb. 17, 2005, Doc. No. 189; Feb. 21, 2005, Doc. No. CEP-27.

[117] The first phase of the proposed railway project is a 61-mile line between Kars and Akhalkalaki in Georgia. A second phase envisages extension of the line to Tbilisi, Georgia, to link with a rail line to Baku, Azerbaijan. This railway provides an alternative route to an existing unused rail-line from Kars to Armenia. *CEDR*, May 25, 2005, Doc. No. CEP-27089; July 2, 2005, Doc. No. CEP-30019. In the 109th Congress, H.R. 3361, introduced on July 20, 2005, and S. 2461, introduced on Mar. 28, 2006, prohibited U.S. assistance to build any rail connections or railway-related connections that traverse or connect Baku, Azerbaijan; Tbilisi, Georgia; and Kars, Turkey, and that specifically exclude cities in Armenia. S. 3938, the Export-Import Bank Re-authorization Act of 2006 — prohibiting Eximbank credits or guarantees for the railway — was signed into law on Dec. 20, 2006 (P.L. 109-438).

[118] *CEDR*, Oct. 17, 2006, Doc. No. CEP-9001.

emphasized to Russia that it should not seek to exclude other positive international involvement. Congressional concerns over Russia's motives in the Eurasian states have been reflected in provisions in every Foreign Operations Appropriations Act since FY1994 prohibiting aid to any Eurasian state that violates the territorial integrity or national sovereignty of another (a presidential waiver is included; the waiver has been used to provide aid to Armenia).

At least until recently, Russia appeared to place the greatest strategic importance on exercising influence in the military-strategic sphere, less on influence in the economic sphere, and a minimum on influence in the domestic political sphere, except for obtaining assurances on the treatment of ethnic Russians. Russia tried to stop terrorism, ethnic "undesirables," drugs, weapons, and other contraband from entering its borders, and to contain the contagion effects of separatist ideologies in the North and South Caucasus. These concerns, Russia averred, led it to maintain military bases in Armenia and Georgia and a relatively large Caspian Flotilla. The states variously responded to Putin's policies. Armenia was interested in close security ties with Russia — given that it is almost surrounded by Islamic states that support Azerbaijan's sovereignty over NK — and it viewed Russia as a traditional protector against the Turks. Georgia objected to the problematic Russian "peacekeeping" role in Abkhazia and South Ossetia, and Azerbaijan was concerned about Russia's ties with Armenia.

Although Putin's regional influence efforts appeared initially successful, over the past three years several developments may have altered this assessment. These include the "rose revolution" in Georgia, NATO's increased ties with all the states of the region, the completion of the BTC oil pipeline and the SCP for gas, the lessening but still distracting Chechnya conflict in Russia, Russia's agreement to close its remaining military bases in Georgia, and decisions by Azerbaijan to end and Georgia to reduce imports of Russian gas. These developments appear to be strengthening the region's pro-Western and pro-U.S. orientation, according to many observers.

Military-Strategic Interests. Russia's armed presence in Armenia and Georgia — including military base personnel, "peacekeepers," and border troops — was significant during most of the 1990s, but is declining recently in Georgia. The first step by Russia in maintaining a military presence in the region was the signing of the CIS Collective Security Treaty by Armenia, Russia, and others in 1992, which calls for mutual defense consultations. Russia prevailed on Georgia and Azerbaijan to join the CIS and also sign the treaty, but they withdrew in early 1999. Russia secured permission for two military bases in Armenia and four in Georgia, and Russian forces help guard the Armenian-Turkish border. In 1993, Azerbaijan was the first Eurasian state to pressure Russia to withdraw its troops, except at the Gabala radar site in northern Azerbaijan. (Giving up on closing the site, in January 2002 Azerbaijan signed a 10-year lease with Russia to permit up to 1,500 personnel to man the radar.) In 1999, Georgia assumed full control over guarding its land and sea borders, except for some liaison officers.

At the November 1999 OSCE Summit, the South Caucasus states joined 27 others in agreeing to adapt the Conventional Armed Forces in Europe (CFE) Treaty. The Treaty adaptation process gave Georgia a forum to push for a reduced Russian

military presence in Georgia, and when fully implemented also will provide for a reduced Russian military presence in the North Caucasus. To comply with new weapons limits under the Treaty, Russia agreed to reduce weaponry at its bases in Georgia, to close its bases at Gudauta and Vaziani by July 2001, and to complete negotiations during 2000 on the status of the other two bases at Batumi and Akhalkalaki. The Treaty remains unratified by NATO signatories until Russia satisfies these and other conditions. Russia moved some weaponry from the bases in Georgia to bases in Armenia, raising objections from Azerbaijan. On July 1, 2001, Georgia reported that the Vaziani base and airfield had been turned over by Russia to Georgia. The Russian government reported in June 2002 that it had closed its Gudauta base, but announced that 320 troops would remain to guard facilities and support "peacekeepers" who would relax at the base. At its December 2002 ministerial meeting, the OSCE hailed the Gudauta closure — over Georgia's objections that the base was not under its control — and appeared unwilling to press Russia on terminating the other bases. At the meeting, the United States voiced "hope" that Russia would make progress in meeting its CFE commitments. A more determined stance was taken by the OSCE in subsequent fora. Russia asserted that it needed $300 million to $1 billion and three to ten years to close the other two bases. Russian Defense Minister Sergey Ivanov stated in June 2005 that about 2,500 Russian troops were at the bases.

Putting pressure on Russia to abide by its commitments, the Georgian legislature in March 2005 passed a resolution calling for Russia to come to an agreement by mid-May on closing the bases by January 2006 or face various restrictions on base operations. This pressure, and perhaps a May 2005 U.S. presidential visit, spurred Russia to come to an agreement with Georgia announced on May 30, 2005, setting 2008 as the deadline for closing the bases. Reportedly, the Russian base at Akhalkalaka will be closed by the end of 2007, and the base at Batumi will be closed during 2008. Paving the way for this agreement, President Putin on May 23, 2005, stated that Georgia had the sovereign right to request the base closures and that his military General Staff had assured him that the Cold War-era bases were not of strategic importance to Russia.

Russia's military force withdrawals from Georgia have made its presence in Armenia more significant as a means to retain regional influence, according to many Russian officials. Armenia, in turn, has argued that the Russian bases provide for regional stability by protecting it from attack. According to *The Military Balance 2005-2006*, there are 3,500 Russian army and air force personnel stationed in Armenia. Russia has supplied many weapons to Armenia — including S-300 missiles, Mig-29 fighters, and some of the equipment being relocated from Georgia as part of the base-closure process — which Azerbaijan views as destabilizing.

Until late 2006, it appeared that Russia was trying to develop closer security ties with Azerbaijan to counter U.S. influence. Russia was concerned about possible U.S. plans to seek a greater security presence and feared that U.S. assistance would permit Azerbaijan to bolster its Caspian Sea navy, challenging Russian naval predominance. In February 2003, a framework agreement on Azerbaijan-Russia military cooperation accord was signed, opening the possibility of Russian military training and arms sales to Azerbaijani forces. However, such cooperation has appeared minor, perhaps because Azerbaijan's aim in signing the agreement was to persuade the United States

to offer more security assistance. Among other Russia-Azerbaijan security cooperation, in May 2005, the Interior (police) Ministers of the two countries signed an accord to cooperate on anti-terrorism and announced that cooperation in 2004 had resulted in the extradition of dozens of suspected criminals by both sides.[119] In March 2006, visiting President Putin called for enhanced bilateral economic and security cooperation, but Aliyev reportedly would not agree to support the creation of a Russia-led Caspian Sea naval security alliance or commit to greater Azerbaijani use of Russian oil export pipelines. In late 2006, Azerbaijani-Russian relations appeared to worsen over demands by Russia's Gazprom for substantial gas price hikes, which led Azerbaijan to cease importing from Gazprom.

Some observers caution that Russia's decreased military presence within the region has been more than met by its buildup of forces in the North Caucasus area that Russia can use to intimidate the region. Other Russian forces along the region's borders include the Black Sea Fleet and the Caspian Flotilla. The latter has been expanded in recent years while the former faced dwindling funding until 2003. Armenia is the base for a regional air defense system.

After September 11, 2001, Russia stepped up its claims that Georgia's Pankisi Gorge harbored Chechen terrorists with links to bin Laden, who used the Gorge as a staging ground for attacks into Chechnya. Some Russian officials in 2002 initially condemned U.S. plans to provide military training and equipment to Georgia to help it deal with terrorism in the Gorge and elsewhere The United States in turn expressed "unequivocal opposition" to some Russian assertions of a right to military intervention within Georgia to combat terrorism. Georgia launched a policing effort in the Gorge and agreed with Russia to some coordinated border patrols in late 2002 that somewhat reduced tensions over this issue. In February 2004, Saakashvili reportedly pledged during a Moscow visit to combat "Wahabbis" (referring to Islamic extremists) in Georgia, including Chechen terrorists hiding in the Pankisi Gorge and international terrorists that Russia alleged had transited Georgia to fight in Chechnya.

Caspian Energy Resources. In recent years, Russian energy firms have played more prominent roles in the Caspian Sea region. With Russia's military influence in the region perhaps declining with the closure of its military bases in Georgia, Russia may place even greater emphasis on retaining or expanding influence over energy development and transport.[120] As part of such efforts, Russia's policymakers during much of the 1990s insisted that the legal status of the Caspian Sea be determined before resources could be exploited. Russia changed its stance by agreeing on seabed delineation with Kazakhstan (1998 and 2002) and Azerbaijan (2002), prompting objections from Iran and Turkmenistan. Before September 11, 2001, Putin criticized Western private investment in energy development in the Caspian region, and appointed a special energy emissary to lobby the region to encourage energy ties with Russia. After September 11, 2001, however, he appeared to ease his criticism of a growing U.S. presence. At the May 2002 U.S.-Russia summit, the two presidents issued a joint statement endorsing multiple pipeline

---

[119] Igor Torbakov, *Eurasia Insight*, Apr. 9, 2003; *CEDR*, Apr. 15, 2005, Doc. No. CEP-78; Apr. 25, 2005, Doc. No. CEP-122; May 20, 2005, Doc. No. CEP-39062.

[120] Jeronim Perovic, *Demokratizatsiya*, Winter 2005, pp. 61-85.

routes, implying Russia's non-opposition to plans to build the BTC oil pipeline and an associated gas pipeline. In March 2004, however, a Russian official stated that Putin wanted to ensure that the greatest volume of Caspian energy continued to flow through Russian pipelines. In the South Caucasus region, Russian energy firms have moved aggressively to purchase or otherwise gain influence over energy development and distribution. In Armenia, Russia reportedly lobbied to limit the capacity of the Iran-Armenia gas pipeline (the first phase of which opened in March 2007) and a consortium controlled by Gazprom succeeded in becoming the operator.[121]

The Protection of Ethnic Russians. As a percentage of the population, there are fewer ethnic Russians in the South Caucasus states than in most other Eurasian states. According to the *CIA World Factbook*, ethnic Russians constituted less than 4% of the region's population in 2005. Russia has voiced concerns about the safety of ethnic Russians in Azerbaijan and Georgia. A related Russian interest has involved former Soviet citizens who want to claim Russian citizenship or protection. In June 2002, a new Russian citizenship law permitted granting citizenship and passports to most Abkhazians and South Ossetians (they are already able to enter Russia without visas, while Georgians are not), heightening Georgian fears that Russia has de facto annexed the regions. Many observers argue that the issue of protecting the human rights of ethnic Russians and pro-Russian groups is a stalking horse for Russia's military-strategic and economic interests. Pro-Russian fellow-travelers and agents in place are used to boost Russian influence and to oppose U.S. interests.

Turkey. The Bush Administration has generally viewed Turkey as able to foster pro-Western policies and discourage Iranian interference in the South Caucasus states. According to these policymakers and others, Turkey can play an important role in the region, and provide a model of a non-authoritarian, non-theocratic Islamic state. Critics of an over-reliance on Turkey 's role in the region point to the Turkish tilt toward Azerbaijan in the NK conflict and Turkey's less than full support for U.S.-led coalition actions in Iraq in March-April 2003 in cautioning that the United States and NATO might be drawn by their ties with Turkey into policy imbroglios.

Some in Turkey have envisaged Azerbaijan and Central Asia as part of a pan-Turanic (Turkic peoples) bloc. Turkey seeks good relations with Azerbaijan and Georgia and some contacts with Armenia, while trying to limit Russian and Iranian influence. While Turkey has gained some influence in the region, it has been constrained by its own economic problems, poor relations with Armenia, and countervailing Russian influence. Armenia is a member of the Black Sea Economic Cooperation zone, initiated by Turkey, and the two states have established consular relations. Roadblocks to better Armenian-Turkish relations include Turkey's rejection of Armenians' claims that Turkey perpetuated a genocide against them in 1915 and its support for Azerbaijan in the NK conflict. Turkish officials stated in 1995 that "Armenia must withdraw from occupied Azerbaijani lands" before Turkey would consider establishing full diplomatic relations. Turkey's increased influence in Azerbaijan has included Azerbaijan's adoption of a Latin alphabet and the construction of the BTC oil and associated gas pipelines. Georgia has an ongoing

---

[121] "Armenia/Iran: Pipeline Admits in Rival Gas Supplier," *Oxford Analytica*, Mar. 19, 2007.

interest in ties with the approximately one million Georgians residing in Turkey and the approximately 50,000 residing in Iran, and has signed friendship treaties with both states. Turkey and Russia are Georgia's primary trade partners. Russia has been able to establish military bases in Armenia and Georgia to buoy up its regional influence. Turkey views the Russian bases in Armenia and Georgia as security threats, and Turkey and the United States succeeded within the CFE Treaty adaptation process in obtaining Russian pledges to close down two bases in Georgia and to discuss the status of the remaining two bases. Turkey reportedly has some military aircraft landing and servicing privileges at Georgia's Marneuli airbase.

Iran. Many in Iran initially viewed the breakup of the Soviet Union as creating a "new Middle East" centered on Iran, and including Afghanistan, Armenia, Azerbaijan, the Central Asian states, Pakistan, and Turkey, but poor relations with Afghanistan's Taliban group and others caused this idea to fade. Iran's interests in the South Caucasus have appeared moderate and not focused on dominating the region through subversion. Azerbaijani officials at times have alleged that elements in Iran have fostered Islamic fundamentalism or sponsored terrorism, and Georgian officials have reported Islamic missionary activities in areas of Georgia with Islamic populations, including Kvemo Kartli (in which about one-half of the population is ethnic Azerbaijani) and Kakheti (in which about one-tenth of the population is ethnic Azerbaijani or Kist).

Iran's interests in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence, ending regional instability that might threaten its own territorial integrity, and building economic links. Iran and Russia cooperated during most of the 1990s in trying to block Western energy development in the Caspian by demanding that the legal status of resources first be determined. Russia has broken with Iran on this stance by signing bilateral and trilateral border agreements with Azerbaijan and Kazakhstan.

A major proportion of the world's Azerbaijanis (estimates range from 6-12 million), and about 200,000 Armenians reside in Iran. Ethnic Azerbaijanis are Iran's largest ethnic minority, constituting almost one-third of its population. Iran has limited trans-Azerbaijani contacts to discourage the spread of ethnic consciousness among its "Southern Azerbaijanis," and has heavily criticized politicians in Azerbaijan who advocate separatism in Iran. The example of the assertion of Kurdish ethnic rights in post-Saddam Iraq in 2003 has galvanized some Azerbaijanis who propagandize for greater rights for "Southern Azerbaijanis." Alternatively, Azerbaijani elites fear Iranian-supported Islamic fundamentalism and question the degree of Iran's support for an independent Azerbaijan.[122]

Iran has growing trade ties with Armenia and Georgia, but its trade with Azerbaijan has declined. Iran has argued for some time that Azerbaijan would most benefit financially by cooperating in building energy pipelines to Iran. Islamic Shiite

---

[122] Cameron Brown, *The Middle East Journal*, Autumn 2004, pp. 576-597; Brenda Shaffer, *Borders and Brethren: Iran and the Challenge of Azerbaijani Identity*, Cambridge, Mass., MIT Press, 2002.

fundamentalists in Iran have urged Iran's government to forego its official policy of neutrality in the NK conflict and embrace solidarity with Shiites in Azerbaijan.[123]

A major thaw in Azerbaijani-Iranian relations took place in 2004-2005 with an exchange of visits by the heads of government. Khatami visited Azerbaijan in August 2004, during which the two presidents agreed to open an Azerbaijani consulate in Tabriz. In January 2005, Ilkham Aliyev visited Iran. However, on major issues such as border delineation in the Caspian Sea and Iran's objections to Azerbaijani security ties with the United States, the two sides did not come to agreement. In March 2005, Iranian Air began weekly flights from Tabriz to Baku. Some observers suggested that Iran's increased acrimony with the United States may have been a spur to its improved relations with Azerbaijan, in order either to encourage Azerbaijan to be a mediator or to urge it not to permit U.S. basing.[124] More recently, some in Azerbaijan have criticized Iran's arrests of dozens of ethnic Azerbaijani civil rights advocates and alleged separatists during mid- to late 2006, including Abbas Lisani.[125]

U.S. policy aims at containing Iran's threats to U.S. interests in the region (See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman). Some critics argue that if the South Caucasus states are discouraged from dealing with Iran, particularly in building pipelines through Iran, they would face greater pressure to accommodate Russian interests.

Others. Among non-bordering states, the United States and European states are the most influential in the South Caucasus in terms of aid, trade, exchanges, and other ties. U.S. and European goals in the region are broadly compatible, involving integrating it into the West and preventing an anti-Western orientation, opening it to trade and transport, obtaining energy resources, and helping it become peaceful, stable, and democratic. Major programs have been pursued by the European Union, NATO's Partnership for Peace, OSCE, European Bank for Reconstruction and Development, and European-based non-governmental organizations.[126]

U.S. and EU policies toward the region have sometimes differed, primarily on the greater willingness of the EU to cooperate with Russia and Iran in regional

---

[123] Analyst Brenda Shaffer argues that Iran tacitly supports the continuation of the NK conflict by assisting Armenia, since the conflict constrains Azerbaijan's ability to foster ethnic nationalism among Azerbaijanis in Iran and makes war-torn and poverty-stricken Azerbaijan appear less inviting as a homeland. *Caucasian Regional Studies*, vol. 5, 2000; *Borders and Brethren*, pp. 136-140.

[124] BBC Monitoring International Reports, *New Iranian Leader Might Improve Ties with Azerbaijan*, June 29, 2005.

[125] *CEDR*, Jan. 31, 2007, Doc. No. CEP-950234; Nov. 1, 2006, Doc. No. CEP-950311; Aug. 11, 2006, Doc. No. CEP-950113. Amnesty International terms Lisani a "prisoner of conscience." *Iran: Further Information on Incommunicado Detention/Fear of Torture/ Medical Concern, Abbas Lisani*, Sept. 19, 2006; and *Iran: Further information on Incommunicado Detention/Fear of Torture/Medical Concern, Prisoner of Conscience. New Concern: Fear of Flogging*, Jan. 19, 2007.

[126] Herzig, pp. 114-117.

projects. U.S. and European energy firms also have vied to develop resources. In 2004, EU foreign ministers invited the South Caucasus states to participate in a "Wider Europe" program of enhanced aid, trade, and political ties.

The South Caucasus region has developed some economic and political ties with other Black Sea and Caspian Sea littoral states, besides those discussed above, particularly with Ukraine, Romania, Kazakhstan, and Turkmenistan. Various Central Asian states have common interests with Azerbaijan, including some linguistic and religious ties and concerns about some common bordering powers (Iran and Russia). Both the South Caucasus and Central Asia face terrorist threats and drug trafficking from Afghanistan. Energy producers Kazakhstan, Turkmenistan, and Uzbekistan have considered trans-Caspian transport as a means to get their oil and gas to Western markets. As Central Asia's trade and transport links to the South Caucasus become more significant, it will become more dependent on stability in the region.

Figure 1. Armenia, Azerbaijan, and Georgia

Source: Map Resources. Adapted by CRS. (08/02 M.Chin)

crsphpgw