

# Report for Congress

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

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# 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 some in Iran view 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. EU members are increasingly addressing instability in what they may 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 neighboring Iran undue control or benefit. U.S. aid has been provided to bolster the security and independence of the states. Critics have asserted that the United States historically has had few interests in this region, and advocate limited U.S. involvement sufficient to ensure general U.S. goals of fostering stability and reforms.

Most in Congress have supported U.S. assistance to bolster independence and reforms in the South Caucasus, but questions remain about the suitability, 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 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, funded a border and customs security program for Georgia, and upheld a South Caucasus funding category to encourage conflict resolution, provide for reconstruction assistance, and facilitate regional economic integration.

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# 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.<sup>1</sup> 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 from the early nineteenth century until the break-up 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 collapse and conflicts began or deepened that threatened their existence, though in recent years the states have appeared less unstable. 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 find themselves unable to address external threats because of internal weaknesses such as political and economic instability, ethnic and regional conflicts, and crime and corruption.

## Overview of U.S. Policy

U.S. security policy toward the South Caucasus states became more active after the mid-1990s, as a result of Russia's military activities in Georgia, Russia's first

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<sup>1</sup> For background, see CRS Reports RS20812, *Armenia Update*; 97-522, *Azerbaijan*; and 97-727, *Georgia*. See also CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia*; and CRS Issue Brief IB92109, *Armenia-Azerbaijan Conflict*, updated regularly. Analysts Eldar Ismailov and Zia Kengerli posit that in terms of proximity to the Caucasus Mountains, swaths of Iran and Turkey could be included in the Caucasus region. *Central Asia and the Caucasus*, No. 2, April 2003. The Caspian region encompasses the littoral states Azerbaijan, Russia, Iran, Kazakhstan, and Turkmenistan, but sometimes the region is widely viewed as including Armenia, Georgia, and Uzbekistan.

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 advocate a constructive Russian role in the region, the United States also increasingly has supported broad engagement with the South Caucasian states in order to help them “remain independent, and [to] become democratic, stable, and prosperous partners of the United States.” The United States is “wholly committed to intensive engagement and dialogue with each of the nations” over the long term through diplomacy and by providing the greatest amount of international assistance to the region.<sup>2</sup>

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 9/11. 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 *Patterns of Global Terrorism 2002* 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.

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 *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.<sup>3</sup>

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

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<sup>2</sup> Assistant Secretary of State A. Elizabeth Jones, *U.S. Engagement in Central Asia and the Caucasus: Staying Our Course along the Silk Road*, Speech at the University of Montana, April 10, 2003.

<sup>3</sup> The White House. *National Energy Policy*, May 17, 2001; *The National Security Strategy of the United States of America*, April 29, 2003.

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 9/11, 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 border and customs security funding program for Georgia and a South Caucasus funding category to encourage conflict resolution, provide for reconstruction assistance, and facilitate regional economic integration. Some of this aid has been used by Georgia to fortify its northern borders with Russia and Chechnya. 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. In 1997, a U.S.-Azerbaijan Bilateral Security Dialogue was inaugurated to deal with joint concerns over terrorism, drug trafficking, international crime, and the proliferation of weapons of mass destruction (WMD).

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.<sup>4</sup> 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 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 a stable transport corridor and energy supplier, and the United States has focused on antiterrorism in the post-9/11 period.

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

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<sup>4</sup> U.S. State Department. *Caspian Region Energy Development Report to Congress*, April 15, 1997, (required by the conference managers on H.R. 3610, Omnibus Appropriations for FY1997, including Foreign Operations, P.L. 104-208).

1990s, Iran was greatly concerned about Azerbaijanis who called for Iran's ethnic Azerbaijani areas to secede, and some recently renewed calls have heightened these concerns.<sup>5</sup> Instability in Chechnya and other areas along Russia's North Caucasus borders threatens Russia's security and creates reasons and pretexts for Russian intervention and the presence of military bases. At the same time, the instability along its southern borders hinders Russia in building trade and economic relations with the South Caucasus states. Russia has attempted to retain influence in the South Caucasus since 9/11 to counter increased U.S. anti-terrorism assistance to the states.

Among other players, Western oil and gas firms play a dominant investment role in the region, dwarfing assistance given to the region by outside governments or international financial institutions. All three states benefit greatly from remittances by their citizens who work abroad. 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 (although some Russian and Iranian interests have clandestinely supported ethnic instability in the region).

Iran and Russia have cooperated sometimes in trying to retain regional influence by blocking outside involvement in developing Caspian Sea oil resources or transit routes bypassing their territories. More recently, they have clashed over Caspian Sea border delineation and regional export routes. The apparent rift in early 2003 between NATO members Turkey and the United States over U.S.-led coalition operations in Iraq may contribute to a more nuanced treatment of Turkey's regional role by Iran and Russia.

**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 remains elusive. Instead, conflict has driven the states and separatist areas to search for outside supporters as leverage against each other, 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.

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<sup>5</sup> Richard Giragosian, *RFE/RL Newsline*, April 29, 2003. According to Giragosian, Azerbaijan may be stressing that there is a sizable ethnic group in Iran, similar to the Kurds in Iraq, whose repression poses another reason for the U.S. Administration to pursue regime change in Iran.



The Armenia-Azerbaijan conflict over NK heavily colors foreign lobbying by these states and by NK, with Armenia seeking close security and economic ties with Russia and Iran to counter Azerbaijan's close ties with Turkey, while securing similar aid from the United States and NATO to balance its world view. Armenia's relations with Turkey are heavily colored by its memories of genocidal actions by the Ottomans during World War I. Turkey's prolonged economic weakness and associated inability to offer much security and other aid to Azerbaijan may have contributed to Azerbaijan's pursuit of closer relations with the United States, according to some observers. Georgia appears more concerned about countering 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 directly link it (via the Turkish Straits) with the Mediterranean Sea, providing it more of a Western focus. Many in Azerbaijan have objected to Russia's violence against Chechnya's Muslims, and Russia and Georgia have repeatedly clashed over the latter's seeming toleration or support for Chechen separatists. Azerbaijan's agreement with Russia and Kazakhstan over oilfield delineation in the Caspian Sea seems aimed at least in part as a defense against border claims by Turkmenistan and Iran.

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 balancing powers in the South Caucasus that, in parallel with the uncompromising stances of opposing ultranationalist elements in the three states, contributes to deadlock rather than the resolution of regional conflicts.<sup>6</sup> (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, and receive major economic sustenance from, respectively,

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<sup>6</sup> Bruno Coppetiers, *Caucasian Regional Studies*, Vol. 5, 2000, [http://poli.vub.ac.be/publi/crs/eng/Vol5/].

Armenia, Russia, and Russia's North Ossetia region. Also, Georgia's Ajaria region receives backing from Russia for its autarchic stance toward the Shevardnadze government.

## Political and Social Disorder

Azerbaijan and Georgia were engulfed by political turmoil during the early 1990s, but during the 1990s their leaders appeared to consolidate power. In both Azerbaijan and Georgia, new constitutions in 1995 granted the presidents sweeping powers and their ruling parties have held sway in the legislatures. During the 2000s, these states again may be entering periods of political instability, because of Azerbaijani President Heydar Aliyev's health problems and age (80) and Georgian President Shevardnadze's statement that he will not seek re-election in 2005. Successions could be violent, or even include wider regional conflict.<sup>7</sup> According to some critics, U.S. policies toward Azerbaijan and Georgia are too dependent on personal links with these two leaders, so that even peaceful political successions could bring setbacks to U.S. influence.

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, 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. (See also CRS Report RS20812, *Armenia Update*.)

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. High unemployment rates and hundreds of thousands of ill-housed refugees contribute to civil tensions. These states remained economically disadvantaged in the early 2000s, with a low quality of life.<sup>8</sup> Widespread poverty and conflict reportedly have contributed to the emigration of up to one-half (two million) of Armenia's population, up to one-half (four million) of Azerbaijan's, and about one-fifth (one million) of Georgia's.

Azerbaijan is beginning to gain sizable revenues from oil exports, but some observers doubt that the ruling elite will use such revenues to broadly raise living standards for the poor. In June 2002, some residents of the town of Nardaran (near Baku) demonstrated against the lack of fuel, electricity, and other basic necessities, but were forcibly suppressed by the government, leading to dozens of injuries and at

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<sup>7</sup> One troubling scenario might involve a successor in Azerbaijan who seeks to gain popular favor by renewing the NK conflict. Peter Rutland, Jamestown Foundation, *Russia and Eurasia Review*, May 13, 2003.

<sup>8</sup> U.N. World Health Organization. *The World Health Report 2002*, Statistical Annex, October 30, 2002; U.N. Development Program. *Human Development Report 2002*, 2002. The Human Development Indexes show some small improvements in quality of life in the early 2000s in Azerbaijan, but stalled or declining quality of life in Armenia and Georgia.

least one death. Authorities blamed the unrest on Islamic terrorists supported by Iran and subsequently carried out raids and other police actions in the town. This harsh treatment was condemned by many Azerbaijanis. Town residents have denied that they are terrorists and have continued to call for improved living standards.

**Ethnic Tensions.** Regional analyst Elkhan Nuriyev has lamented that the South Caucasus states, because of ethnic conflicts, have not yet been able to fully partake in peace, stability, and economic development over a decade since the Soviet collapse.<sup>9</sup> 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 exclusivist 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 recently have lobbied for the legalization of a political party. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in about 15,000 deaths, 900,000 Azerbaijani refugees and displaced persons, and 300,000 Armenian refugees. Georgia's southern Ajaria region, populated by Islamic ethnic Georgians, has been substantially free from central control. 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 50,000 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 over 200,000 refugees and displaced persons, mostly ethnic Georgians.

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 to robust economic cooperation, trade, and exchanges. The ceasefires between Georgia and Abkhazia and between Azerbaijan and NK are provisional and subject to intermittent violations. (For details, see CRS Issue Briefs IB95024, *Armenia, Azerbaijan, and Georgia*; and IB92109, *Armenia-Azerbaijan Conflict*, updated regularly.)

**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 9/11 and the intensification of international anti-terrorism efforts. Armenia accuses Azerbaijan of sponsoring terrorism, and Georgia accuses Abkhazia, and vice versa. Abkhazian

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<sup>9</sup> Elkhan Nuriyev, in Gary Bertsch, et al., eds., *Crossroads and Conflict*, New York, Routledge, 2000, p. 151.

paramilitaries have terrorized ethnic Georgians attempting to resettle in the Gali area of Abkhazia, and have been countered by the Georgian militias. South Caucasus governments sometimes have accused 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.

Among reports of regional terrorism, the Azerbaijani government has suppressed the activities of the Warriors of Islam group and the clandestine Islamic Party, charging the latter's members with receiving terrorist training in Iran, but Islamic extremism has appeared a lesser threat in Azerbaijan than in the Central Asian states.<sup>10</sup> According to the State Department's *Patterns of Global Terrorism* for 2000, 2001, and 2002, 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 Chechen insurgency in Russia. 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 9/11 and "had some success in suppressing these activities."<sup>11</sup>

In Georgia, Zviadists (supporters of former President Zviad Gamsakhurdia) in 1998 launched an assassination attempt against Shevardnadze and an abortive military insurrection aimed at his overthrow, but a government reconciliation campaign has since contributed to quiescence by this group. 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 9/11.

U.S. concerns over the presence of international terrorists in Georgia's Pankisi Gorge were spurred when, reportedly during the 9/11 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

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<sup>10</sup> U.S. State Department, *Patterns of Global Terrorism 2002*, March 2003, pp. 28-29; Tadeusz Swietochowski, *World Policy Journal*, Fall 2002, pp. 69-76. Many members of the Warriors of Islam (Jeyshullah; an indigenous terrorist group whose 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.

<sup>11</sup> U.S. State Department, *Patterns of Global Terrorism 2002*, pp. 28-29. Azerbaijan also 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.

combat international terrorists based in the Gorge led to the launch of Georgian police and security operations in the Gorge in August 2002. The Security Ministry reported that its anti-terrorist operation was virtually finished in the Gorge by late 2002. Concerns about the renewal of terrorist operations in the area in the springtime, however, led the Georgian government in March 2003 to send extra military and police forces into the Gorge to prevent Chechen rebels from re-entering. (For details, see CRS Report RS21319, *Georgia's Pankisi Gorge*.)

**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. According to the private organization Transparency International, Azerbaijan in 2002 ranked among the top five “seriously corrupt” countries it surveyed, with Georgia close behind (Armenia was not ranked).<sup>12</sup>

**Illegal Narcotics Production, Use, and Trafficking.** According to the State Department’s *International Narcotics Control Strategy Report for 2002*, none of the South Caucasian states is a major drug producer, but all are vulnerable transit routes for drug trafficking from the Middle East and Central Asia to Europe. Drug consumption and cultivation is increasing in Azerbaijan. Armenia's borders with Azerbaijan and Turkey remain closed due to the Nagorno-Karabakh conflict, but when these borders open, drug transiting could increase significantly, the State Department warns. Azerbaijan's main narcotics problem is the increased transit of drugs through its territory resulting from the disruption of the "Balkan route" due to regional ethnic conflicts in several countries of the former Yugoslavia. Narcotics from Afghanistan and South Asia enter from Iran or cross the Caspian Sea from Central Asia and continue on to markets in Russia, Turkey, and Europe. Azerbaijan shares a 700-km frontier with Iran, but its border control forces have faced training and equipment deficits that have challenged effective patrolling. Georgia is vulnerable to increased trafficking because of lack of control over all its territory and its borders, some of which are under separatist control. 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. After such trafficking was disrupted during Georgian counter-terrorism actions in the Gorge in 2002, routes shifted to other areas of Georgia, according to the State Department.

**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

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<sup>12</sup> U.S. Embassies in South Caucasian capitals, *Investment Climate Statements*, 2002-2003; *Problems of Post-Communism*, July/August 2000, pp. 35-36; Transparency International, *Corruption Perceptions Index 2002*, <http://www.transparency.org>].

associated technologies.<sup>13</sup> There are not as many nuclear fuel cycle-related facilities in the South Caucasus as elsewhere in the former Soviet Union, but virtually all of the facilities lack adequate security systems such as cameras and computerized accounting to safeguard medical and industrial nuclear materials and wastes. 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*).<sup>14</sup>

**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.

Georgia, as a major conduit for the Baku-Tbilisi-Ceyhan oil pipeline (and the proposed gas pipeline), and because of its economic and democratic reforms, has emerged as the key to regional stability and security, according to some observers.<sup>15</sup> By the same token, greater 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 GUUAM (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. Their interests are not completely concordant, however, as evidenced by their inability to settle mutual border delineation and by Georgia's ongoing concerns about anti-Armenian actions undertaken by Azerbaijanis residing in Georgia. Armenia seeks workable relations with Georgia so that it may retain transport links to Russia, its major energy supplier, although there has been some discussion of developing a trade route from Armenia to Iran's Caspian seaports, and thence to Russian seaports. Both Armenia and Georgia are dependent on Russia for gas supplies, and Russia's Gazprom (state-controlled gas firm) has moved aggressively

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<sup>13</sup> *NIS Nuclear Profiles Database*. Center for Nonproliferation Studies, Monterey Institute of International Studies. Armenia has the most developed export control system on paper.

<sup>14</sup> *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 March 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. In June 2002, a Georgian scientist warned that nuclear materials in a lab in Abkhazia were vulnerable to theft. *FBIS*, April 27, 1998, Doc. No. FTS-558; February 4, 1999, Doc. No. FTS-1112; May 3, 2000, Doc. No. CEP-9; January 24, 2002, Doc. No. CEP-55; June 29, 2002, Doc. No. CEP-7; October 13, 2002, Doc. No. CEP-13.

<sup>15</sup> Robert Cutler, *Newsbase FSU Oil and Gas Journal*, June 6, 2000.

in recent months to take over distribution networks in the two states. Russia's increasing ownership or control over Armenia's economic infrastructure is endangering its independence, according to some observers.<sup>16</sup>

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 7<sup>th</sup> 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 wider civil disorder in both states.

Azerbaijan and Georgia have been most interested in pursuing military equipment and training cooperation with NATO countries, and Georgia's forces are led by a Western-trained defense minister. Shevardnadze has called for modernizing Georgia's armed forces so they will be ready to join NATO by 2005, but Georgia's ongoing budget crises bedevil this effort. Aliyev has called for Azerbaijan to eventually join NATO. All three states belong to NATO's Partnership for Peace (PFP). NATO Secretary-General George Robertson stated during May 2003 visits to the South Caucasus countries that NATO would assist Azerbaijan and Georgia in revamping their militaries for eventual eligibility for membership, but also cautioned Azerbaijan that it could not become eligible until 2007 or later. Through military exercises and conclaves, NATO has encouraged the three South Caucasus states to cooperate among themselves on security affairs.<sup>17</sup>

**CSTO.** At an April 28, 2003, summit, Armenia joined Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan in creating the CST Organization (CSTO), which will set up a secretariat for operational military planning and budget coordination. 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 influences.<sup>18</sup> By establishing a joint military

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<sup>16</sup> Vladimir Socor, *IASPS Policy Briefings*, Institute for Advanced Strategic and Political Studies, November 13, 2002.

<sup>17</sup> Besides hosting military exercises where the three states participate, NATO's Euro-Atlantic Cooperation Council hosted a regional cooperation conference in Armenia in October 2002. NATO also sponsored a conference in December 2002 where newly inducted NATO member Lithuania urged the three states to use the example of economic and military cooperation among the Baltic states as their model. *FBIS*, December 16, 2002, Doc. No. CEP-67; October 9, 2002, Doc. No. CEP-343.

<sup>18</sup> Ibragim Alibekov and Sergei Blagov, *Eurasia Insight*, April 29, 2003. According to Igor Tobakov, the CSTO is the centerpiece of President Putin's efforts to create a close-knit (continued...)

leadership, the CSTO is supposed to be able to quickly decide on sending troops to troublespots. While the CSTO appears initially focused on Central Asian security, Azerbaijan and Georgia have raised concerns about the CSTO's possible role in the South Caucasus.<sup>19</sup>

**Caucasus Security Pact Proposals.** At the November 1999 OSCE Summit and other forums, Shevardnadze, Kocharyan, Aliyev, and Turkey's then-President Suleyman Demirel 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.<sup>20</sup>

Seeking to play a leading role in forming such a pact, Putin convened side meetings with the leaders of the three Caucasus states during the January and June 2000 CIS summits (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. Nonetheless, consultative meetings of what Putin has termed the "Caucasus Four" have continued. The most recent 6<sup>th</sup> meeting took place in Ukraine in January 2003. Perhaps indicating the ineffectiveness of the grouping, important issues of Russian-Georgian relations were discussed separately by the two leaders, with Shevardnadze reportedly unsuccessfully calling for Russia to reverse the granting of Russian citizenship to most Abkhazians and the cessation of railway transport from Russia into Abkhazia. He also reportedly acquiesced to the continued presence of Russian peacekeepers in Abkhazia. At the Caucasus Four conclave, Putin reportedly stressed economic cooperation and anti-terrorism and law enforcement cooperation among security agencies.<sup>21</sup>

Attempting to involve itself in regional security issues in order to counter growing U.S. influence, Iran's foreign minister toured the South Caucasus states in April 2003, at each stop proposing the formation of a regional security system to include Russia and Turkey. The Georgian foreign minister appearing to faintly praise the idea but stressed that it would take some time to work out the structure. In

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<sup>18</sup> (...continued)

close-knit economic, political, and military alliance of former Soviet republics. *Eurasia Insight*, April 9, 2003. NATO Secretary-General George Robertson in May 2003 stated that NATO will seek to cooperate with the CSTO. *FBIS*, May 14, 2003, Doc. No. CEP-417.

<sup>19</sup> *FBIS*, April 29, 2003, Doc. No. CEP-96; April 29, 2003, Doc. No. CEP-132.

<sup>20</sup> Gerald Libaridian, reported in *RFE/RL Caucasus Report*, June 15, 2000; Wayne Murray, reported in *Caucasus Reporting Service*, No. 38, June 30, 2000.

<sup>21</sup> *Nezavisimaya gazeta*, May 17, 2000, p. 1; *Caucasus Stability Pact - Iran Counters Russian Expansion*, May 25, 2000; *FBIS*, January 28, 2003, Doc. No. CEP-348; January 29, 2003, Doc. No. CEP-125.



Armenia and Azerbaijan, however, the proposal was seemingly dismissed. In all three states, officials expressed a preference for closer ties to NATO and the United States as more likely to enhance their security and to result in the settlement of regional conflicts.<sup>22</sup>

**GUUAM.** In another area of regional cooperation, the GUUAM states (formed from the initials of the member-states; Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) share common interests in resisting Russian domination of former Soviet republics and in securing energy transport and supply that is outside Russian control. Formed in 1997, the group admitted Uzbekistan as a member in April 1999 while officials were attending the Washington NATO Summit. Azerbaijan, Georgia, and Ukraine in early 1999 held joint military exercises aimed at protecting the Georgian oil pipeline. Russia opposes GUUAM as usurping CIS functions, but also calls for GUUAM to admit Russia as a member. The organization was reinvigorated by a meeting of the heads of state of member countries during the U.N. Millennium Summit in September 2000, where they agreed to convene regular summits and ministerial-level conclaves.<sup>23</sup>

GUUAM has received significant encouragement from the United States, including a Congressional authorization for funding (The Security Assistance Act of 2000; P.L.106-280),<sup>24</sup> that some observers have viewed as sustaining the group. At the July 2002 meeting in Yalta, GUUAM countries signed an "Agreement on Cooperation in the Battle against Terrorism, Organized Crime and Other Dangerous Types of Crime." Assistant Secretary of State Elizabeth Jones met with GUUAM foreign ministers in New York in September 2002 and urged greater multilateral cooperation. In December 2002, Assistant Secretary Jones and the GUUAM 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.<sup>25</sup> Under the accord, the United States will fund pilot programs of customs and border training and a GUUAM law enforcement center, with rotating meetings in each of the GUUAM capitals of expert level working groups. At a Georgia-Ukraine presidential summit in May 2003, the two leaders called for naming military coordinators to work out security cooperation within GUUAM, with Georgian officials arguing that such cooperation could help prepare the members for NATO membership.<sup>26</sup> Despite these various actions and proposals, the GUUAM organization remains a work in progress and its members continue to debate its economic and security roles.

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<sup>22</sup> Iya Barateli, *ITAR-TASS*, April 29, 2003; *Prime News*, April 29, 2003, Ariel Cohen, *Eurasia Insight*, May 14, 2003.

<sup>23</sup> *FBIS*, March 17, 2000, June 19, 2000, and September 9, 2000.

<sup>24</sup> P.L. 106-280 authorized assistance to GUUAM and Armenia for FMF, IMET, nonproliferation and export control, and antiterrorism assistance for FY2001-FY2002. Section 907 provisions blocking FMF and IMET aid to Azerbaijan remained in place.

<sup>25</sup> U.S. Department of State. Office of the Spokesman. *Joint Statement of the United States, Azerbaijan, Georgia, Moldova, Ukraine, and Uzbekistan*, December 23, 2002.

<sup>26</sup> *FBIS*, May 7, 2003, Doc. No. CEP-224.

**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. This significance is no longer hypothetical, since Azerbaijan has been producing and shipping oil to international markets since 1997, many observers stress. The U.S. Energy Department reports 1.2 billion barrels of proven oil reserves and 4.4 trillion cubic feet of proven natural gas reserves in Azerbaijan.<sup>27</sup> Further exploration and test drilling could result in revised estimates. Many problems must be resolved before Azerbaijan can fully exploit and market its energy resources, including project financing, political instability, ethnic and regional conflict, and pipeline security.

U.S. companies are shareholders in about one-half of about twenty international production-sharing consortiums, including the Azerbaijan International Oil Corporation (AIOC), formed to exploit Azerbaijan's oil and gas fields. In 1995, 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.

A "main oil" pipeline is also under construction from Baku through Georgia to Turkey's Mediterranean port near Ceyhan. 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 on November 18, 1999, by Azerbaijan, Georgia, Turkey, and Kazakhstan. The pipeline is expected to be completed in 2005 at a cost of \$3 billion with a capacity of one million barrels per day. Attending the signing, President Clinton hailed the pipelines as "advanc[ing] the prosperity and security of [lands on the ancient Silk Road] critical to the future of the entire world."

Some analysts argue that the construction of a Baku-Ceyhan main oil pipeline, 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

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<sup>27</sup> U.S. Department of Energy. Energy Information Administration. *Country Analysis Report: Azerbaijan*, June 2002. *Oil & Gas Journal* reports 7 billion barrels of proven oil reserves and 30 trillion cubic feet of proven natural gas reserves. December 23, 2002, p. 113.

fees, energy revenues, and trade.<sup>28</sup> Others are less optimistic, warning that the states and separatist areas still maintain transport blockades and barriers. Many in Armenia oppose a BTC pipeline that they fear would give Azerbaijan a major means of gaining significant financing for military action against NK.<sup>29</sup>

## U.S. Policy and Issues

According to Assistant Secretary of State Elizabeth Jones, U.S. goals in the South Caucasian and Central Asian states include helping them “remain independent, and [to] become democratic, stable, and prosperous partners of the United States.” The United States is “wholly committed to intensive engagement and dialogue with each of the nations” over the long term through both diplomacy and assistance. Important or critical U.S. security interests in these states received greater emphasis after 9/11, including combating terrorism and drug trafficking and detecting, deterring, interdicting, controlling, and reducing weapons of mass destruction and associated technologies that are a legacy of the Soviet period. 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 emphasizes that U.S. security assistance is “integrated” with programs to enhance human rights and political and economic reforms.<sup>30</sup> Conflict resolution also 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, and Bush reportedly pledged to Shevardnadze in March 2003 that after the Iraq conflict the United States would enhance its diplomatic efforts to end the Abkhaz conflict.

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, FY2004*).

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 essential to its role as a corridor for trans-Caspian energy exports. The

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<sup>28</sup> Robert Cutler, *Newsbase FSU Oil and Gas Journal*, June 6, 2000.

<sup>29</sup> 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.

<sup>30</sup> Elizabeth Jones, Speech at the University of Montana, April 10, 2003.

involvement of U.S. firms in the development and export of Azerbaijani energy is “key” to the U.S. objectives of diversifying world oil supplies and promoting U.S. exports. As a “vital” link in the trans-Caspian energy corridor, Azerbaijan must develop a corruption-free market economy (*Congressional Budget Justification for Foreign Operations, FY2004*).

Georgia plays a “key role” in furthering U.S. strategic and economic interests in the South Caucasus and with neighboring regions, according to the Bush Administration. U.S. support for Georgia’s ability to protect its borders reduces the chances of conflict in the region and blocks the transit of terrorists into and out of the North Caucasus areas of Russia. Georgia will become a “key conduit” through which Caspian energy resources will flow, helping the United States and Europe to diversify their energy sources. U.S. democratization aid has helped to bolster Georgia’s significant progress on legal reforms and to ensure that independent media are among the strongest in Eurasia (*Congressional Presentation for Foreign Operations for FY2004*).

**Contributions to Operation Enduring Freedom in Afghanistan.** In the wake of 9/11, 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 *Patterns of Global Terrorism 2002* 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.

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.<sup>31</sup> 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. Russian Foreign Minister Igor Ivanov warned that the GTEP would “further aggravate” instability in

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<sup>31</sup> 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.

the region, although he hailed the announcement as U.S. acceptance of the Russian claim that Chechen terrorists were using the Pankisi Gorge as a base to attack Russia. President Vladimir Putin on March 1, 2002 stated that he had received assurances from Shevardnadze that the United States was not seeking permanent bases, and that “we support this fight [in the Pankisi Gorge] no matter who takes part in it,” though he called for Russian 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.” Questions about Russia’s stance on GTEP were raised anew in April 2003, when Russia’s State Duma (lower legislative chamber) passed a resolution criticizing the GTEP and a U.S.-Georgian status of forces agreement as “violating the existing balance of forces” in the region and as a “hostile act” against Russia.

The day after the terrorist attacks on the United States, Azerbaijan’s President 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, Aliyev endorsed coalition actions in a phone conversation with Secretary Powell on October 9 and with President Bush on October 30, 2001. Many prominent Azerbaijani opposition parties endorsed Aliyev’s support for the U.S.-led coalition efforts, such as the Musavat Party and the reform wing of the Popular Front, but others, such as the Communist Party, condemned Aliyev’s support for U.S. actions in Afghanistan. Some Azerbaijani commentators, while not opposing U.S.-led coalition efforts in Afghanistan, nonetheless termed them “hypocritical,” arguing that the U.S. definition of terrorism has not included NK separatism. NK Armenians and U.S. diplomats have censured statements by Aliyev and other 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.

Immediately after 9/11, 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 9/11 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. Armenian Foreign Minister Vardan Oskanyan stressed this support during a meeting with Deputy Secretary Armitage on October 25, and President Bush reportedly telephoned Kocharyan at the end of October to thank Armenia for supporting the U.S.-led coalition actions in Afghanistan. Defense Secretary Rumsfeld, during his December trip to Armenia, also expressed U.S. appreciation for Armenia’s support. Armenian officials explained that Armenia’s support for OEF 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 Armenia's independence, gain support for NK Armenians, and protect the interests of Armenians living in the Middle East and elsewhere.<sup>32</sup>

In the U.S. Congress, the events of 9/11 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 conferees. 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. Presidential Determination No. 2003-12, released January 17, 2003, extended the waiver another year, with the President stating that the waiver is necessary to support U.S. counter-terrorism and the operational readiness of U.S. Forces and coalition partners. He also averred that the waiver would permit U.S. border security aid for Azerbaijan and would 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 U.S.-led Iraqi Freedom coalition, with both offering the use of their airbases and to assist the United States in rebuilding 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 in late May 2003 sent 150 troops to serve with U.S. forces in Iraq. Armenia 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, it offered unspecified aid in rebuilding Iraq and refuge for ethnic Armenians displaced by the fighting. Azerbaijan and Georgia reportedly suffered some economic losses associated with the Iraq conflict. BTC pipeline construction was reportedly temporarily delayed because of delivery problems, and Azerbaijan reported that its support for the United States led several Islamic banks and investors to curtail operations or negotiations.<sup>33</sup> The resurgence of Iraqi oil on world markets could contribute to lower world oil prices, at least temporarily harming the economic viability of the BTC.

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<sup>32</sup> *Armenian Agency Praises Foreign Policy*, BBC Worldwide Monitoring, September 24, 2001.

<sup>33</sup> *FBIS*, March 25, 2003, Doc. No. CEP-226.

## U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after 9/11, though overall aid amounts to the countries did not increase post-9/11 as they did in regard to the Central Asian “front line” states. Cumulative budgeted funding for FY1992-FY2002 security programs amounted to \$71 million for Armenia, \$22 million for Azerbaijan, and \$191 million for Georgia, amounting to about 10.1% of cumulative budgeted funding for all South Caucasus programs (see Tables 1 and 2).

The three states and the Caspian Sea came under the purview of the U.S. military’s European Command in FY1999, and USEUCOM launched a U.S.-Georgian Peacetime Military Engagement Program. 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. The Administration’s budget request for FY2004 calls for \$1.3 million for IMET programs and \$10.0 million for FMF for Georgia, compared to \$900,000 for IMET and \$2.5 million for FMF for

Armenia and Azerbaijan, reflecting both close U.S.-Georgian security ties and perhaps the ramping up of smaller programs in the other two states. On February 6, 2003, the United States announced that it would fully fund stepped-up Georgian border guard deployments along Georgia’s border with Russia’s Dagestan region (bordering Chechnya), and that it hoped to provide some personnel for an expanded OSCE observer mission along this border.

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. The waiver enabled both Armenia and Azerbaijan to participate in the “Cooperative Best Effort” PFP military exercises in 2002 and 2003. 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

### **Cumulative Obligations FY1992-FY2002 for South Caucasian Security Programs (Freedom Support Act and Other Funds)** *(million dollars)*

DOD Cooperative Threat Reduction	1.7
DOD DoD/FBI Counter-proliferation	2.0
DOD DoD/US Customs Service Counter-proliferation	3.4
DOD Warsaw Init. (Partnership for Peace)	4.3
DOE Material Protection, Controls & Acct.	1.6
DOE/DOS Nuclear Reactor Safety	35.5
DOS Export Control & Border Security	104.5
DOS HHS - Bioterrorism Engagement Prog.	5.1
DOS DTRA / Military-Ammo Relocation	5.0
DOS Foreign Military Financing	60.5
DOS Intern. Military Education and Training	3.8
DOS Peacekeeping Operations	2.7
DOS Science Centers	15.1
DOS Anti-Crime Training & Techn. Asst.	13.9
DOS Anti-Terrorism Assistance	4.7
DOS DoJ - Overseas Prosecutorial Development & Training	7.1
DOS Civilian R&D Foundation	13.1
<b>TOTAL</b>	<b>284.0</b>

*Source: State Department*

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.”

As part of an expanded OEF, the \$64 million Georgia Train and Equip Program (GTEP) began in May 2002 with the deployment of up to 150 Special Operations Forces, Marines, and other troops. They are providing training to Georgian military, security, and border forces to help them combat Chechen, Arab, Afghani, al Qaeda, and other terrorists who allegedly infiltrated Georgia. Reported other U.S. aims include bolstering Georgia’s ability to guard its energy pipelines and ensuring internal stability. Some refurbishment of Georgian military facilities also was carried out, but U.S. officials say there are no plans to establish a permanent U.S. military presence in Georgia. U.S. Secretary of Defense Donald Rumsfeld and the chairman of the Joint Chiefs of Staff, Gen. Richard Myers, visited Georgia in November 2002 and reviewed the GTEP, with Myers declaring that “the U.S. and Georgian relationship is a very rare, important one [and] it’s been strengthening over the years.” The leader of Georgia’s breakaway Abkhaz region, Vladislav Ardzinba, has rejected reports that the region might host terrorists and warned that U.S. training could increase Georgia’s revanchism. Reports that al Qaeda and other terrorists may be currently in Abkhazia (and elsewhere in Georgia) create dilemmas for a U.S. policy that holds governments responsible for terrorists operating on their territories. (For details, see CRS Report RS21319, *Georgia’s Pankisi Gorge*.)

Indicating the difficulties of sustaining these U.S. efforts, President Shevardnadze on March 12 criticized his ministers for failing to adequately pay troops belonging to the first battalion trained under GTEP. Reportedly, the battalion faced desertion and discipline problems because of the pay arrears. The pay problem was reportedly resolved, but at the cost of underfunding other functions and personnel of the Ministry of Defense, raising the threats of military unrest and deteriorating readiness.<sup>34</sup> One episode of military unrest occurred on March 23, when roughly 50 National Guard veterans occupied a base near Tbilisi to protest the poor social and economic conditions faced by members of the armed forces and veterans.

**Non-proliferation 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.<sup>35</sup> The United States has been the largest aid donor for such efforts. Congress funneled much of this aid to Georgia prior to 9/11, but Armenia and Azerbaijan have joined Georgia in receiving boosted aid after 9/11. Through FY2002, the United States has provided \$35.2 million to enhance the safety and security of Armenia’s Metamor nuclear reactor and \$2.2 for training by the FBI and Customs in efforts to combat proliferation.<sup>36</sup> The FY1997 Defense Authorization Act (P.L. 104-201) permitted

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<sup>34</sup> Jaba Devdariani, *Eurasia Insight*, May 19, 2003.

<sup>35</sup> Cassidy Craft, *Crossroads and Conflict*, p. 239.

<sup>36</sup> In May 2002, the United States imposed sanctions on the Armenian firm Lysine Open Joint Stock Co. and its former owner, Armen Sarkisyan, for transferring WMD technology  
(continued...)



aid for customs and border enhancements to prevent the spread of WMD, clearing the way for such aid to Azerbaijan under the nonproliferation exception from the ban of Sec. 907 of the Freedom Support Act. In 1999, the first U.S.-Azerbaijani security agreements were signed on providing such U.S. aid, and this aid has increased since 9/11. At Georgia's behest, U.S. personnel removed 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.<sup>37</sup> The United States has provided \$4.9 million in Cooperative Threat Reduction, nonproliferation, and Department of Energy aid through FY2002 to help Georgia secure nuclear materials. The Energy Department and U.S. Customs have hosted conferences on preventing nuclear proliferation in the South Caucasus states. The Nuclear Security Initiative Act of 2003 (H.R. 1719; introduced in the House on April 10, 2003) calls for the Energy Department to develop employment for scientists and others in the Silk Road states who were formerly involved in the production of weapons of mass destruction. It suggests that the pilot program be started in Georgia.<sup>38</sup>

**Partnership for Peace Support.** All three of the South Caucasus states have joined NATO's Partnership for Peace (PFP). PFP status seeks to assure the South Caucasus states that they are not in a "power vacuum" or completely vulnerable to neighboring powers. At the same time, 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.

Despite these NATO assurances to Russia, the Azerbaijani and Georgian presidents have looked to links with PFP as the road to eventual NATO membership that will provide security guarantees against possible Russian revanchism.<sup>39</sup> Illustrating support for PFP, 34 Azerbaijani troops serve as NATO peacekeepers in Kosovo as part of the Turkish battalion in the German sector, and 36 Georgian troops serve as part of the Turkish battalion in the U.S. sector.

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

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<sup>36</sup> (...continued)

to Iran, specifically, transfer of biochemical equipment. *Federal Register*, May 16, 2002, pp. 32983-32984; *RFE/RL Newslines*, May 17, 2002.

<sup>37</sup> *NIS Nuclear Profiles Database*. Center for Nonproliferation Studies, Monterey Institute of International Studies.

<sup>38</sup> The United States in early 2003 raised concerns that unemployed Georgian technicians were servicing military aircraft or assisting in nuclear programs in Iran. Shevardnadze verified that Georgian citizens had illicitly aided Iran. *FBIS*, January 12, 2003, Doc. No. CEP-23; January 13, 2003, Doc. No. 167; January 15, 2003, Doc. No. 282; *AFP*, January 14, 2003.

<sup>39</sup> Georgian President Shevardnadze has argued that neither the continuing presence of Russian bases nor ongoing separatist conflicts should deter NATO from admitting Georgia. *FBIS*, May 12, 2003, Doc. No. CEP-173.

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.<sup>40</sup> In late April 2003, Armenia announced that it would send peacekeepers to Kosovo as part of the Greek peacekeeping battalion. PFP exercises that include the three South Caucasus states and other PFP and NATO members are being hosted by Armenia in June 2003 and by Georgia in September 2003.

**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. Terrorist groups in the region may be using drug trafficking to help finance their operations, so counter-drug activities may support counter-terrorism.<sup>41</sup> U.S. policy also emphasizes the threat of rising crime, corruption, and instability posed by illegal narcotics production, use, and trafficking in the region. The FBI and U.S. Customs Service have given training in counter-narcotics to police, customs, and border control personnel in the region as part of the Anti-Crime Training and Technical Assistance Program sponsored by the State Department's Bureau of International Narcotics and Law Enforcement Affairs. The waiver of Sec.907 of the Freedom Support Act has permitted U.S. government-to-government aid for counternarcotics programs in Azerbaijan.<sup>42</sup>

## Safety of U.S. Citizens and Investments

U.S. Embassies in the South Caucasus states have reported that corruption stifles U.S. investment in the region. In Armenia, the U.S. Embassy reports that it "receives a moderate number of complaints by U.S. firms" regarding corruption, and "regularly and forcefully conveys to the Armenian government the unacceptability of corrupt practices." U.S. firms are the largest investors in Azerbaijan, investing nearly \$4 billion, or about 25% of all foreign investment. However, corruption and the arbitrary implementation of laws and regulations "significantly impede the ability of many companies to do business in Azerbaijan," particularly in non-energy projects, according to the embassy. Total U.S. direct foreign investment in Georgia is less than \$200 million. The U.S. Embassy in Georgia reports conditions similar to those in Azerbaijan, warning that "many U.S. and foreign firms doing business in Georgia have had direct experience with official corruption. This includes interference by customs and tax officials, legislation and decrees that adversely affect their interests, and unfavorable court rulings in investment disputes." The embassy

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<sup>40</sup> *FBIS*, July 26, 2000, Doc. No. CEP-63; January 18, 2003, Doc. No. CEP-166; February 12, 2003, Doc. No. CEP-174; February 16, 2003, Doc. No. CEP-66; May 19, 2003, Doc. No. CEP-213.

<sup>41</sup> U.S. Senate. Judiciary Committee. *Narco-Terrorism*. Testimony of Raphael Perl, May 20, 2003.

<sup>42</sup> *International Narcotics Control Strategy Report 2002*. U.S. State Department, March 2003.

also warns that there are a few criminalized sectors of the economy, such as gasoline and cigarette distribution, that foreign investors should avoid.<sup>43</sup>

U.S. Government facilities worldwide were on a heightened state of alert after 9/11, 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. Terrorists have not targeted U.S. citizens and interests in Armenia. In Azerbaijan, members of Warriors of Islam were convicted in 2001 for planning an attack against the US Embassy and other terrorism. The U.S. Embassy in Baku reports that there have been no major acts of political violence against U.S. businesses or assets. In August 2002, the embassy warned U.S. citizens not to travel to Nardaran, Azerbaijan, the scene of anti-government protests. In Georgia, the embassy has warned U.S. citizens not to travel to Georgia's Pankisi Gorge, and the State Department has raised concerns about violence against U.S. citizens practicing minority faiths. A January 2003 crime and safety report also warns that U.S. and other foreigners are highly vulnerable to robbery and even "violent street attacks." In a September 2001 Warden's Message, the embassy reported that it had received credible evidence that U.S. citizens were being targeted for kidnaping for ransom in the Tbilisi area, and a warning about the general danger of kidnaping was repeated in a February 2003 Consular Information Sheet.

According to the risk analysis firm World Markets, foreign businesses in the three states face "significant" risks to investment because of high and arbitrary taxes, bureaucratic red tape and corruption, and transport problems and other poor infrastructure. In Georgia and Azerbaijan, business personnel face some risks from organized crime.<sup>44</sup> In Armenia, personnel face few risks from crime, kidnaping, terrorism, or political violence.

## Issues for 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.

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<sup>43</sup> U.S. Embassies in South Caucasian capitals, *Investment Climate Statements*, 1999; U.S. Foreign Commercial Service and the Department of State; *Country Commercial Guides*, 1999-2000; [State Department: Country Commercial Guide, Azerbaijan, FY2003] Country Commercial Guide, Georgia, oct 2002; State Department, *Patterns of Global Terrorism 2002*, pp. 28-29. In Georgia, the largest U.S. direct investor is AES Telasi, an electricity distribution firm, that has faced severe government interference.

<sup>44</sup> *World Markets Research Centre*, [<http://www.worldmarketsonline.com>].

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.<sup>45</sup> 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 (see below, *Energy Resources*). The Administration also has pursued close ties with Armenia and Georgia because of their professions of democratic principles, concerns by Armenian-Americans and others over Armenia’s fate, and appreciation among some U.S. policymakers for Shevardnadze’s former role as a pro-Western Soviet foreign minister. They also point to the prompt cooperation offered to the United States by Armenia, Azerbaijan, and Georgia in the aftermath of 9/11, and Azerbaijan’s and Georgia’s military support for U.S. post-Saddam peacekeeping in Iraq.

An opposing view is skeptical 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.<sup>46</sup> 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

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<sup>45</sup> 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.

<sup>46</sup> 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 “theatre 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.

any substantial U.S. assistance to Azerbaijan until Azerbaijan moves toward peace with Armenia and NK.

**What Roles Should Outside Powers Play in the Region?** Some U.S. policymakers who consider U.S.-Russian cooperation on arms control and anti-terrorism as top priorities argue that the United States should seek closer cooperation with Russia in economic and security affairs in the South Caucasus.<sup>47</sup> 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. Some observers, pointing to political moderation within Iran, urge a reassessment of U.S. containment policy to permit broader South Caucasian energy cooperation.

The U.S. policy of engagement with both Russia and the South Caucasus states may become more difficult to reconcile if Russia becomes more assertive in the region against U.S. interests, and will force the United States to make a choice, according to some observers. Those who view Russia as encouraging separatism rather than conflict resolution in the region urge stronger U.S. positive or negative inducements to Russia.<sup>48</sup>

### **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.<sup>49</sup> The May and November 2002 U.S.-Russia summit statements on energy cooperation appear to mark a U.S. policy of cooperation with Russia in the development of Caspian oil resources. Such a policy may bring into question the rationale that the BTC oil pipeline is needed to preclude a monopoly on regional pipeline routes by Russia, but the pipeline policy may be justified as a possible additional export route for Russia or even as a U.S. hedging option in case Russian cooperation does not progress. The Administration and others argue that the economic benefits gained by the region by developing its

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<sup>47</sup> 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, April 8, 2003.

<sup>48</sup> *Caspian Energy Update*, Center for Strategic and International Studies, February 25, 2000.

<sup>49</sup> The White House. *National Security Strategy of the United States of America*, April 29, 2003. Analyst Zeyno Baran states that most speeches delivered by U.S. Caspian energy envoys in the past few years have 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.

energy resources will be accompanied by contractual and other rule of law developments, which could foster regional stability and conflict resolution.<sup>50</sup>

The Administration's May 2001 National Energy Policy report recommends 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 BTC gas pipeline to export Azerbaijan's Shah Deniz gas, and otherwise encourage the Caspian regional states to provide a stable and inviting business climate for energy and infrastructure development. The 9/11 attacks appeared to intensify the Administration's commitment to develop Caspian energy and the BTC pipeline 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 question the economic viability of Ceyhan and trans-Caspian pipeline routes compared to routes through Russia or Iran and given uncertainties about regional stability, ownership of Caspian Sea fields, world oil and gas prices, and the size of regional reserves.<sup>51</sup> They question whether the oil and other natural resources in these new states are vital to U.S. security and point out that they are, in any event, unlikely to be fully available to Western markets for many years. Some observers also reject the argument that energy and pipeline development may boost economic development and thereby foster the settlement of ethnic and civil conflicts in the region. Instead, they call for greater attention to conflict resolution and broader-based economic and democratic reforms that would better serve the population of the region.<sup>52</sup>

**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 possible coercion from neighboring countries and to international terrorist groups.<sup>53</sup> 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.

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<sup>50</sup> Thomas Waelde, Sergey Vinogradov, and Armando Zamora, *Caucasian Regional Studies*, [http://poli.vub.ac.be/publi/crs/eng/Vol5/].

<sup>51</sup> Eric Rasizade, *Comparative Studies of South Asia*, Nos. 1-2, 2002.

<sup>52</sup> 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, April 30, 2003.

<sup>53</sup> 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 cooperation with Russia in South Caucasian affairs would reduce the likelihood of such a scenario (pp. 107-120).

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 — would spur these states to work together. The 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 the arms race 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 region, and endorse making it plain that any U.S. security assistance provided implies no defense "umbrella."<sup>54</sup>

**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. The illegitimacy of the governments in the eyes of many or most citizens precludes civil and ethnic peace and sustainable development, and invites foreign meddling, in this view.<sup>55</sup> Other observers caution that democratization can be destabilizing if authorities are not able to adequately address burgeoning public demands unleashed by liberalization. Increasing income inequalities and requests by international financial institutions for balanced budgets that shortchange social needs can exacerbate popular discontent that leaders then try to block by reversing democratization. They urge greater U.S. and Western attention to bolstering social programs and other efforts to safeguard democratization.<sup>56</sup>

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<sup>54</sup> These views were more prevalent prior to 9/11. 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.

<sup>55</sup> Alexander Rondeli, *Crossroads and Conflict*, p. 48.

<sup>56</sup> 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.

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 slim progress in Armenia and setbacks in Azerbaijan.<sup>57</sup> 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, and the 2000 legislative races as evidence of deepening crisis. There are deepening concerns that President Aliyev might seek to position his son as a dynastic successor and that a presidential election scheduled for 2005 in Georgia (Shevardnadze has declared that he will not run) might be destabilizing.

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.<sup>58</sup>

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<sup>57</sup> U.S. Agency for International Development. *Foreign Aid in the National Interest*, 2002, pp. 37, 39, 46.

<sup>58</sup> Assistant Secretary Jones rejects the idea that U.S. sanctions should be put in place in some states because of human rights abuses or corruption, stating that "we cannot risk our engagement in Central Asia or the Caucasus" through "legislatively imposed sanctions," but instead should continue to use "diplomatic tools ... to ensure a stable and prosperous region. Speech at the University of Montana, April 10, 2003.



## 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. 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.<sup>59</sup>

Russia’s actions have not always seemed best suited to maintain or increase its influence, however. Elements of the Russian government and other interests have at times disagreed on policy toward the region, with some pressing more coercive policies and some more conciliatory and business-like policies. Russian military elements and the Foreign Ministry have appeared at times to follow contradictory policies regarding the Abkhaz conflict. Also, Russian legislative and military interests and the presidential administration have clashed over arms transfers to Armenia, and Russian firms and the Fuel Ministry have differed with the Foreign Ministry on regional energy development and Caspian Sea delineation.

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.<sup>60</sup> Russia’s 1999-2003 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.<sup>61</sup>

Russia under Putin launched new regional initiatives in 2000. These included an agreement in July to hold regular biannual “Caucasus Four” summits focusing on

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<sup>59</sup> 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 Shevardnadze in defeating insurgency, after which Georgia joined the CIS.

<sup>60</sup> 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. Herzog, p. 49. See also Stephen Blank, *Threats to Russian Security*, U.S. Army War College, July 2000, pp. 18-19.

<sup>61</sup> *The Economist*, August 19, 2000; Stephen Blank, *U.S. Military Engagement with Transcaucasia and Central Asia*, U.S. Army War College, June 2000, pp. 22-35.

deepening Russia's influence in the region through dispute mediation and security cooperation, and an agreement in September between Russia, Iran, and India on north-south international transport corridor (ITC).<sup>62</sup> According to Russian media, major reasons for pursuing a Russian-oriented ITC included counteracting the regional development of routes bypassing Russia, such as the BTC oil pipeline, and the Russian strategic concept's call for protecting Russia's interests in the Caspian region.<sup>63</sup> A railway would be built through Azerbaijan and ferries on the Caspian would be used to connect Russia to Iran. Transport ministers of Russia, Iran, and India met in January 2002 to form a coordination council to work on joint customs, financial, and legal issues. In May 2002, an inter-ministerial agreement was signed between Russia, Iran, and India inaugurating the ITC with termini at Bombay and St. Petersburg. Armenia, Azerbaijan, Kazakhstan, Bulgaria, and Belarus expressed their willingness to join the agreement. At a coordinating council meeting in Tehran in April 2003, Belarus and Kazakhstan formally were slated to join the ITC, and Oman and Syria shortly thereafter. Armenia, Azerbaijan, and Bulgaria have applied to join. Russia has also proposed that the corridor be linked to several EU east-west trade routes.<sup>64</sup>

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 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).

Russia has exercised most of its influence in the region in the military-strategic sphere, an increasing degree in the economic sphere, and the least in the domestic political sphere (except for obtaining assurances on the treatment of ethnic Russians). Turkey's membership in NATO makes it part of NATO's encroachment, in the view of some Russians. Russia has tried to stop terrorism, ethnic "undesirables," drugs, weapons, and other contraband from entering its borders, and to contain the

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<sup>62</sup> Russian and Iranian transport ministers discussed setting up such a transport corridor at a meeting in September 1999. India was interested in sending an experimental cargo shipment to Scandinavia along this corridor. *Interfax*, September 14, 1999.

<sup>63</sup> *FBIS*, January 15, 2000, Doc. No. CEP-162; April 26, 2000, Doc. No. CEP-15; September 15, 2000, Doc. No. CEP-193; November 10, 2000, Doc. No. CEP-58; April 2, 2002, Doc. No. CEP-201; May 23, 2002, Doc. No. CEP-150; August 5, 2002, Doc. No. CEP-309; May 5, 2003, Doc. No. CEP-204.

<sup>64</sup> In the case of Armenia, Moscow Mayor Yuriy Luzhkov in January 2003 called for establishing a "direct" trade route between Armenia and Russia running from Armenia through Iran to the Caspian Sea, and thence to Russian seaports. *FBIS*, January 30, 2003, Doc. No. CEP-258. The Baku Declaration, signed by Presidents Aliyev and Putin in January 2001, calls for Russia to facilitate Azerbaijan's participation in the ITC. *FBIS*, January 16, 2001, Doc. No. CEP-12. The ITC coordinating council reported that it was still defining its functions at its April 2003 meeting in Tehran. Ravil Musin, *ITAR-TASS*, April 29, 2003.

contagion effects of separatist ideologies in the North and South Caucasus. These concerns, Russia avers, has led it to establish military bases in Armenia and Georgia. The states have variously responded to Russian overtures. Armenia is 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 views Russia as a traditional protector against the Turks. Georgia has objected to problematic Russian support for its policies toward Abkhazia, and Azerbaijan has been concerned about Russia’s ties with Armenia.

***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.<sup>65</sup> 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 (Russia also pledged to close two bases and discuss closing two others; see below).

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.<sup>66</sup> 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 discuss the disposition of its weapons at its military 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. Russia has stated that it needs \$300 million and eleven years to close the other two bases. At its December 2002 ministerial meeting, the OSCE hailed the Gudauta closure over Georgia’s objections

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<sup>65</sup> The total number of Russian troops has been estimated at about 2,900 in Armenia, 4,000 in Georgia (plus an additional 1,600 “peacekeepers” in Abkhazia and 530 in South Ossetia), and over 104,000 in the North Caucasus region (*The Military Balance 2002-2003*).

<sup>66</sup> The CFE Treaty adaptation signatories have concurred that they will not move to ratify the Treaty until Russia complies with the proposed flank limits, covering weapons it has deployed in the North Caucasus. *Arms Control Today*, April 2000, p. 32.

that the base was not under Georgia's control, and appeared unwilling to press Russia on terminating the other bases. Pascoe testified on September 24, 2002, that Russia is temporizing on implementing its CFE Istanbul commitments. At the OSCE meeting in December 2002, the United States voiced "hope" that Russia would make progress in 2003 in meeting its CFE commitments.

Russia's military force reductions in 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. Russia has supplied many weapons to Armenia, including S-300 missiles and Mig-29 fighters for air defense, which Azerbaijan deems as destabilizing.<sup>67</sup> However, Russia also has appeared to try to develop closer security ties with Azerbaijan to counter U.S. influence. 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. If implemented, such Russian assistance might retard the development by Azerbaijani forces of interoperability with NATO systems.<sup>68</sup>

Many 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.<sup>69</sup> Armenia is the base for a regional air defense system. Russia's conflict in Chechnya has heightened regional fears about a spillover of fighting. Since 9/11, Russia has stepped up its claims that Georgia's Pankisi Gorge harbors Chechen terrorists with links to bin Laden, who use the Gorge as a staging ground for attacks into Chechnya. Some Russian officials initially condemned U.S. plans, announced in early 2002, to provide military training and equipment to Georgia to help it deal with terrorism in the Gorge and elsewhere (for details, see CRS Report RS21319, *Georgia's Pankisi Gorge*).

**Caspian Energy Resources.** Russia has tried to play a significant role in future oil production, processing, and transportation in the Caspian Sea region. In an effort to increase influence over energy development, 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 has changed its stance by agreeing on seabed delineation with Kazakhstan and Azerbaijan, prompting objections from Iran and Turkmenistan. Before, 9/11, Putin criticized Western

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<sup>67</sup> Highlighting Russia's view of Armenia as a vital regional beach-head, Col. Gen. Leonid Ivashov, Chief of the International Directorate of the Defense Ministry, reportedly stated that Russian-Armenian military cooperation is the guarantee of stability in the whole Caucasus. *Nezavisimaya gazeta*, May 17, 2000, p. 1.

<sup>68</sup> Igor Torbakov, *Eurasia Insight*, April 9, 2003.

<sup>69</sup> According to State Duma Deputy Vladimir Lysenko, the Caspian Sea Flotilla is being enlarged to assert Russia's energy interests, while the Black Sea Fleet is benefitting from President Putin's 2002 call for an expanded defense budget. *FBIS*, January 15, 2003, Doc. No. CEP-530.

private investment in energy development in the Caspian region, and appointed a special energy emissary to lobby the region to increase its energy ties with Russia. After 9/11, 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 routes, implying Russia's non-opposition to plans to build the Baku-Tbilisi-Ceyhan (BTC) oil pipeline (and the Baku-Erzurum gas pipeline). Nonetheless, in September 2002, Foreign Minister Ivanov resurrected opposition to the BTC pipeline, stating during a U.S. visit that "we will not put up with the attempts to crowd Russia out." Russian officials have continued to argue that a BTC oil pipeline is not commercially viable.<sup>70</sup> Some U.S. observers view Russia's stepped-up pressure on Georgia during 2002 as calculated to increase its influence, including over pipelines. Russia conducted a major military exercise in the northern Caspian Sea in August 2002, demonstrating its armed predominance and perhaps spurring Azerbaijan and Kazakhstan in May 2003 to join Russia in a trilateral agreement on dividing Caspian seabed resources among the three littoral states.

***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 about 3.6% of the region's population in 2002. 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. Some observers have raised concerns that Russia is taking advantage of fellow-travelers and agents in place in the South Caucasus states 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.

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<sup>70</sup> The Russian proposals for developing the ITC also may be seen as a means of competing against the BTC oil pipeline. In February 2003, Russian Deputy Foreign Minister Kalyuzhny asserted that Russia would insist that any legal agreement among the littoral states on the Caspian's status include provisions banning undersea pipelines, viewed by some observers as a Russian attempt to block proposals for such pipelines linking Kazakhstan to the BTC oil pipeline. *FBIS*, February 26, 2003, Doc. No. CEP-116.

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 BTC oil pipeline project. Georgia has an ongoing 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 or the promotion of Islam, although Azerbaijan at times has alleged that elements in Iran have fostered Islamic fundamentalism or sponsored terrorism.

Iran's interests in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence (Iran's goal of containing Russia conflicts with its cooperation with Russia on these interests), 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.<sup>71</sup>

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

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<sup>71</sup> Analyst Julia Nanay has pointed to Iran's support for demilitarization of the Caspian Sea as marking its fears of a greater Russian Caspian Sea naval presence. Conference Remarks, Middle East Policy Council, Washington, D.C. September 15, 2000.

largest ethnic minority, constituting almost one-third of its population. Iran has limited trans-Azerbaijani contacts to discourage the emergence 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.

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 with Iran in building energy pipelines to Iran. Islamic Shiite 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.<sup>72</sup>

U.S. policy aims at containing Iran’s threats to U.S. interests in the region (See CRS Issue Brief IB93033, *Iran*). 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.<sup>73</sup>

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 projects. U.S. and European energy firms also have vied to develop resources. The Brussels-based Center for European Policy Studies has called for the EU to play a larger role relative to the United States in the region, arguing that the region geographically borders Europe, so that Europe naturally is interested in its stability and resource development. The Center calls for the South Caucasus states to form a security regime even before regional conflicts are resolved; to cooperate with PFP and the OSCE on conflict resolution, peacekeeping, and border patrolling; and to implement the CFE Treaty framework for demilitarization and confidence-building.<sup>74</sup>

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<sup>72</sup> 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, [<http://poli.vub.ac.be/publi/crs/eng/Vol5/>].

<sup>73</sup> Herzog, pp. 114-117.

<sup>74</sup> Centre for European Policy Studies, *A Stability Pact for the Caucasus*, Working (continued...)

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 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.

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<sup>74</sup> (...continued)

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 [http://www.ceps/be/Pubs/Caucasus/NDC/Newdeal.htm]. CEPS juxtaposes the success of EU policy in the Baltic states and Finland and in northwest bordering areas of Russia, which Russia views as cooperative, to U.S. actions in southeastern areas, which Russia views as disruptive.



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

<i>South Caucasian State</i>	<i>Armenia</i>	<i>Azerbaijan</i>	<i>Georgia</i>	<i>Total</i>
<i>Territory (Square Miles)</i>	11,620	33,774	26,872	72,266
<i>Population (2002; Millions)</i>	3.0	8.1	4.93	16.03
<i>Gross Domestic Product (Bill. Dollars, 2002 Est.)</i>	2.3	6.1	3.3	11.7
<i>GDP per capita (Dollars)</i>	770	750	670	730 (Avg.)
<i>Proven Oil Reserves (Bill. Barrels)</i>	0	1.2	0.35	1.55
<i>Proven Natural Gas Reserves (Trillion Cubic Feet)</i>	0	4.4	0.3	4.7
<i>Size of Security Forces (Military and Police/Border Troops)</i>	45,610	87,100	19,200	50,600 (Avg.)
<i>Cumulative U.S. Aid Budgeted, FY1992-FY2002 (Bill. Dollars)*</i>	1.34	0.34	1.12	2.8
<i>of which: Security Assistance (Mill. Dollars)*</i>	70.8	22.3	190.9	284.0
<i>FY2002 Budgeted Funds (Mill. Dollars)*</i>	107.6	51.8	110.0	269.4
<i>FY2003 Budgeted Funds (est., Mill Dollars)**</i>	89.4	45.7	83.5	218.6

Sources: Economist Intelligence Unit; Department of Energy, U.S. Energy Information Administration, *Caspian Sea Region and Country Analysis Briefs*; International Institute of Strategic Studies, 2002, *The Military Balance, 2002-2003*; U.S. Government Assistance to and Cooperative Activities with the New Independent States, FY2002 Annual Report, Department of State; Congressional Presentation for Foreign Operations, FY2004, The Secretary of State.

\*FREEDOM Support Act and Agency budgets.

\*\*FREEDOM Support Act and other Function 150 funds (does not include Defense or Energy Department funding).

**Table 2: Security Program Funding for Armenia, Azerbaijan, and Georgia, FY1992-FY2002  
(million dollars)**

Approp	Program	Armenia	Azerbaijan	Georgia	Total
DOD	Cooperative Threat Reduction	0.0	0.0	1.7	1.7
DOD	DoD/FBI Counterproliferation	0.9	0.4	0.7	2.0
DOD	DoD/US Customs Service Counterproliferation	1.3	1.6	0.6	3.4
DOD	Warsaw Initiative (Partnership for Peace)	1.0	1.3	2.0	4.3
DOE	Material Protection, Controls & Accounting	0.0	0.0	1.6	1.6
DOE / DOS	Nuclear Reactor Safety	35.2	0.0	0.3	35.5
DOS	Export Control & Border Security (EXBS)	5.6	9.4	89.4	104.5
DOS	HHS - Bioterrorism Engagement Program (BTEP)	1.0	0.0	4.1	5.1
DOS	DTRA / Military-Ammo Relocation	0.0	0.0	5.0	5.0
DOS	Foreign Military Financing	4.0	4.0	52.5	60.5
DOS	International Military Exchanges and Training	0.1	0.4	3.4	3.8
DOS	Peacekeeping Operations	0.0	1.0	1.7	2.7
DOS	Science Centers	8.4	0.0	6.8	15.1
DOS	Anti-Crime Training & Technical Assistance (ACTTA)	5.0	1.0	7.9	13.9
DOS	Anti-Terrorism Assistance (ATA)	1.2	1.4	2.1	4.7
DOS	DoJ - Overseas Prosecutorial Development and Training	0.8	0.2	6.1	7.1
DOS	Civilian R&D Foundation (CRDF)	6.4	1.6	5.1	13.1
<b>TOTAL</b>		<b>70.8</b>	<b>22.3</b>	<b>190.9</b>	<b>284.0</b>

Source: State Department.

**Figure 1: Armenia, Azerbaijan, and Georgia**



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