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Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

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LEGISLATION

Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

SUMMARY

The United States recognized the independence of all the former Soviet republics by the end of 1991, including the South Caucasus states of Armenia, Azerbaijan, and Georgia. The United States has fostered these states' ties with the West in part to end the dependence of these states on Russia for trade, security, and other relations. The United States has pursued close ties with Armenia to encourage its democratization and because of concerns by Armenian-Americans and others over its fate. Close ties with Georgia have evolved from U.S. contacts with its pro-Western leadership. The Bush Administration supports U.S. private investment in Azerbaijan's energy sector as a means of increasing the diversity of world energy suppliers and encourages building multiple energy pipelines to world markets. The United States has been active in diplomatic efforts to end conflicts in the region, many of which remain unresolved.

The FREEDOM Support Act (P.L. 102-511) provides the major authorization for assistance to the Eurasian states for humanitarian needs, democratization, creation of market economies, trade and investment, and other purposes. Section 907 of the act prohibits most U.S. government-to-government aid to Azerbaijan until it ceases blockades and other offensive use of force against Armenia. This provision has been partly altered over the years to permit humanitarian aid and democratization aid, border security and customs support to promote non-proliferation, Trade and Development Agency aid, Overseas Private Investment Corporation insurance, Eximbank financing, and Foreign Commercial Service activities.

In the aftermath of the September 11, 2001 terrorist attacks on the United States, the Administration appealed for a national security waiver of the prohibition on aid to Azerbaijan, in consideration of Azerbaijan's assistance to the international coalition to combat terrorism. In December 2001, Congress approved foreign appropriations for FY2002 (P.L. 107-115) that granted the President authority to waive Section 907, renewable each calendar year under certain conditions. President Bush exercised the waiver most recently on January 13, 2005.

As part of the U.S. Global War on Terrorism, the U.S. military in May 2002 began providing security equipment and training to help Georgia combat terrorist groups in its Pankisi Gorge area and elsewhere in the country. Azerbaijani and Georgian troops participate in stabilization efforts in Afghanistan and Iraq, and Armenian personnel serve in Iraq.

Consolidated Appropriations for FY2005, including Foreign Operations (P.L. 108-447, signed into law on December 8, 2004), provides \$205 million in FREEDOM Support Act (FSA) assistance to the South Caucasus states. The Conference managers (H.Rept.108-792) direct \$75 million in FSA funding for Armenia (\$13 million above the budget request), \$38 million for Azerbaijan, and \$92 million for Georgia (\$2 million above the budget request). The managers call for at least \$3 million to be "provided to address ongoing humanitarian needs in Nagorno Karabakh." Among other foreign assistance, \$8 million is provided for Armenia, \$8 million for Azerbaijan, and \$12 million for Georgia for Foreign Military Financing.

MOST RECENT DEVELOPMENTS

The Parliamentary Assembly of the Organization for Security and Cooperation in Europe (OSCE) approved a resolution in early July 2005 calling on Russia “to refrain from any actions impeding the peace process” in Georgia’s breakaway region of Abkhazia. The resolution also called for Russian peacekeepers stationed in Abkhazia to facilitate the return of refugees to the region and for all OSCE members to “support and facilitate” the establishment of a U.N./OSCE human rights office in the Gali district of Abkhazia. The OSCE’s Special Representative on the Nagorno Karabakh (NK) Conflict delivered a report proposing the demilitarization of NK and surrounding areas (possibly monitored by an international peacekeeping force), substantial autonomy for NK, and the economic integration of the whole South Caucasus.

In early July 2005, representatives of the Parliamentary Assembly of the Council of Europe visiting Azerbaijan raised concerns that myriad electoral officials accused of abuses in the past legislative race remained in place for the planned November 6, 2005, legislative election. They also warned that regional officials outside of Azerbaijan’s capital of Baku were using heavy-handed tactics to suppress opposition party efforts to field candidates.

BACKGROUND AND ANALYSIS

Armenia, Azerbaijan, and Georgia are located south of the Caucasus Mountains that form part of Russia’s borders (see **Figure 1**). The South Caucasus states served historically as a north-south and east-west trade and transport “land bridge” linking Europe to the Middle East and Asia, over which the Russian Empire and others at various times endeavored to gain control. In ancient as well as more recent times, oil and natural gas resources in Azerbaijan attracted outside interest. Although Armenia and Georgia can point to past autonomy or self-government, Azerbaijan was not independent before the 20th century. After the Russian Empire collapsed in 1917, all three states declared independence, but by early 1921 all had been re-conquered by Russia’s Red (Communist) Army. They regained independence when the Soviet Union collapsed in 1991. (For background, see CRS Report RS20812, *Armenia Update*; CRS Report 97-522, *Azerbaijan*; and CRS Report 97-727, *Georgia*.)

Overview of U.S. Policy Concerns

By the end of 1991, the United States had recognized the independence of all the former Soviet republics. The United States pursued close ties with Armenia, because of its profession of democratic principles, and concerns by Armenian-Americans and others over

The Caucasus Region: Basic Facts

Area: The region is slightly larger than Syria: Armenia is 11,620 sq. mi.; Azerbaijan is 33,774 sq. mi.; Georgia is 26,872 sq. mi.
Population: 16.1 million, similar to Netherlands; Armenia: 3.2 m.; Azerbaijan: 8.3 m.; Georgia: 4.6 m. (*Economist Intelligence Unit* and regional governments, 2004 est.)
GDP: \$17.6 billion; Armenia: \$3.7 b.; Azerbaijan: \$8.5 b.; Georgia: \$5.4 b. (*EIU* and regional governments, 2004 est., market exchange rate)

its fate. The United States pursued close ties with Georgia after Eduard Shevardnadze, formerly a pro-Western Soviet foreign minister, assumed power there in early 1992. Faced with calls in Congress and elsewhere for a U.S. aid policy for the Eurasian states, then-President George H.W. Bush sent the FREEDOM Support Act to Congress, which was signed with amendments into law in October 1992 (P.L. 102-511).

U.S. policy toward the South Caucasus states includes promoting the resolution of the Armenia-Azerbaijan conflict over Azerbaijan's breakaway Nagorno Karabakh (NK) region, and Georgia's conflicts with its breakaway regions of Abkhazia and South Ossetia. Successive U.S. Special Negotiators for NK and Eurasian Conflicts have helped in various ways to settle these conflicts. Congressional concerns about the NK conflict led to the inclusion of Section 907 in the FREEDOM Support Act, which prohibits U.S. government-to-government assistance to Azerbaijan, except for non-proliferation and disarmament activities, until the President determines that Azerbaijan has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK" (on waiver authority, see below). Provisions in FY1996, FY1998, and FY1999 legislation eased the prohibition by providing for humanitarian, democratization, and business aid exemptions.

Some observers argue that developments in the South Caucasus region are largely marginal to global anti-terrorism and to U.S. interests in general. They urge great caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts. Other observers believe that U.S. policy now requires more active engagement in the South Caucasus. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, terrorism, and Islamic extremism and to bolster the independence of the states. Some argue that such enhanced U.S. relations also would serve to "contain" Russian and Iranian influence, and that close U.S. ties with Azerbaijan would benefit U.S. relations with other Islamic countries, particularly Turkey and the Central Asian states. They also point to the prompt support offered to the United States by the regional states in the aftermath of the September 11, 2001, attacks by Al Qaeda on the United States. Some argue that energy resources in the Caspian region are a central U.S. strategic interest, including because Azerbaijani and Central Asian oil and natural gas deliveries would lessen slightly Western energy dependency on the Middle East (see below, *Energy Resources*).

Post-September 11. In the wake of September 11, 2001, U.S. policy priorities shifted toward global anti-terrorist efforts. In the South Caucasus, the United States obtained quick pledges from the three states to support Operation Enduring Freedom (OEF) in Afghanistan, including overflight rights and Azerbaijan's and Georgia's offers of airbase and other support. OEF was later expanded to Georgia (see below, *Security Assistance*). Congressional attitudes toward Azerbaijan and Section 907 also shifted. Presidential waiver authority was added to Foreign Operations Appropriations for FY2002 (H.R. 2506; P.L. 107-115). The President may use the waiver authority if he certifies that U.S. aid 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 NK peace talks or be used for offensive purposes against Armenia. The waiver may be renewed annually, and sixty days after the exercise of the waiver authority, the President must report to Congress on 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, 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, President Bush on January 25, 2002, exercised the waiver. The waiver most recently was exercised on January 13, 2005.

Operations in Iraq. Azerbaijan and Georgia were among the countries that openly pledged to support the U.S.-led Operation Iraqi Freedom (OIF), with both offering the use of their airbases, and to assist the United States in re-building Iraq. Both countries agreed to participate, subject to U.S. financial support, in the stabilization force for Iraq. In August 2003, both Azerbaijan (150 troops) and Georgia (69 troops) dispatched forces to Iraq. U.S. officials reportedly asked Azerbaijan and Georgia in April 2004 to bolster their troop contributions in the face of Spain's troop pullout. Georgia boosted its deployment to about 850 in March 2005, making it among the top ten contributors. Azerbaijan has raised concerns about the welfare of an estimated 300,000-900,000 Turkic speakers in Iraq it considers Azerbaijani, as has Armenia about the safety of 25,000 ethnic Armenians. Armenia sent 46 personnel to Iraq in January 2005, to serve with the Polish contingent (these Armenian troops were replaced by another 46 in July 2005).

Obstacles to Peace and Independence

Regional Tensions and Conflicts

Ethnic conflicts have kept the South Caucasus states from fully partaking in peace, stability, and economic development over the decade since the Soviet collapse, some observers lament. The countries are faced with on-going budgetary burdens of arms races and caring for refugees and displaced persons. Other costs of ethnic conflict include threats to bordering states of widening conflict and the limited ability of the region or outside states to fully exploit energy resources or trade/transport networks.

U.S. and international efforts to foster peace and the continued independence of the South Caucasus states face daunting challenges. The region has been the most unstable part of the former Soviet Union in terms of the numbers, intensity, and length of its ethnic and civil conflicts. 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. The main languages in the three states are dissimilar (also, those who generally consider themselves Georgians — Kartvelians, Mingrelians, and Svans — speak dissimilar 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 of NK, Abkhazia, and South Ossetia have failed to gain international recognition. NK relies on economic support from Armenia, and Abkhazia and South Ossetia from Russia.

Nagorno Karabakh Conflict. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in up to 20,000 deaths, up to 1 million Azerbaijani refugees and displaced persons, and about 300,000 Armenian refugees. About 15-20% of Azerbaijan's territory, including NK, reportedly is controlled by NK Armenian forces. The OSCE's "Minsk Group" of concerned member-states began talks in 1992. A U.S. presidential envoy

was appointed to these talks. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). The United States, France, and Russia co-chair meetings of the Minsk Group.

The Minsk Group reportedly has presented four proposals as a framework for talks, but a peace settlement has proved elusive. In late 1997, a new step-by-step peace proposal was recognized by the presidents of Azerbaijan and Armenia as a basis for further discussion. This led to protests in both countries and to the forced resignation of Armenian President Levon Ter-Petrosyan in early 1998. Heydar Aliyev in February 2001 stated that he had “turned down” and refused to discuss a late 1998 Minsk Group proposal embracing elements of a comprehensive settlement. The assassination of Armenian political leaders in late 1999 set back the peace process. In 2001, the two presidents attended talks in Key West, Florida, and then met with President Bush, highlighting early Administration interest in a settlement. In January 2003, Armenia’s President, Robert Kocharyan, proclaimed that its peace policy rested on three pillars: a “horizontal” — instead of hierarchical — relationship between NK and Azerbaijan; a secure land corridor between Armenia and NK; and security guarantees for NK’s populace. Armenian Foreign Minister Vardan Oskanyan in October 2004 stated that the continued occupation of NK border areas was necessary leverage to convince Azerbaijan to agree to NK’s status as a “common state,” and that there could be no compromise on this status, since “every inch of Armenia is priceless, including Karabakh.” During 2005, media in both countries have reported progress in talks on a “hybrid” peace plan involving the return of most NK border areas prior to a referendum in NK on its status.

Civil and Ethnic Conflict in Georgia. Several of Georgia’s ethnic minorities stepped up their dissidence, including separatism, in the late 1980s and early 1990s, resulting in the loss of central government control over the regions of South Ossetia and Abkhazia. President Saakashvili in his January 2004 inaugural address proclaimed his responsibility to re-integrate these regions into Georgia. Some observers have argued that Russia’s increasing controls over South Ossetia and Abkhazia have transformed the separatist conflicts into essentially Russia-Georgia disputes (see also below, *Russia*).

South Ossetia. In 1989, the region lobbied for joining its territory with North Ossetia in Russia or for independence. Repressive efforts by former Georgian President Gamsakhurdia triggered conflict in 1990, reportedly leading to about 1,500 deaths. In June 1992, Russia brokered a cease-fire, and a “peacekeeping” force composed of Russian, Georgian, and Ossetian units has been stationed in South Ossetia (reportedly numbering around 1,000 troops, including about 530 Russians, 300 South Ossetians, and until recently, 100-150 Georgians). A Joint Control Commission composed of OSCE, Russian, Georgian, and North and South Ossetian emissaries was formed to promote a settlement of the conflict. Relations with Georgia deteriorated following a contentious “presidential” election in South Ossetia in late 2001, won by Russian citizen and St. Petersburg resident Eduard Kokoyev (also spelled Kokoit), who had run on a platform of “associating” the region with Russia. According to some estimates, some 25,000 ethnic Ossetians and 20,000 ethnic Georgians reside in the now largely vacant region.

President Saakashvili increased pressure on South Ossetia in 2004 by tightening border controls. He also reportedly sent several hundred police, military, and intelligence personnel into the region. Georgia maintained that it was only bolstering its peacekeeping contingent

up to the limit of 500 troops, as permitted by the cease-fire agreement, and stated that these peacekeepers were preventing smuggling and guarding ethnic Georgian villages. Georgian guerrilla forces also reportedly entered the region. Allegedly, Russian defense and security officers assisted several hundred paramilitary elements from Abkhazia, Transnistria, and Russia to enter the region. Following inconclusive clashes, both sides by late 2004 ostensibly had pulled back most undeclared forces. Saakashvili announced a new peace plan for South Ossetia in January 2005 that offered substantial autonomy and quotas for Ossetian representation in federal branches of power. In mid-July 2005, Saakashvili elaborated on this plan, calling on the international community to create a fund to facilitate repatriation and rebuilding. Kokoit has rejected the plan, asserting that South Ossetia is independent.

Abkhazia. In July 1992, Abkhazia's legislature declared the region's effective independence from Georgia, prompting Georgian national guardsmen to attack the region. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a Eurasian state, termed UNOMIG, to help the parties reach a settlement. Russian and North Caucasian "volunteer" troops that reportedly made up the bulk of Abkhaz separatist forces routed Georgian forces, leading in April 1994 to agreement by the two sides on a framework for a political settlement and the return of refugees. A Quadripartite Commission (QC) was set up to discuss repatriation. Russian troops (acting as CIS "peacekeepers") were deployed in a security zone along the Inguri River that divides Abkhazia from the rest of Georgia. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians.

In late 1997, the sides agreed to set up a Coordinating Council to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. The QC meets periodically and addresses grievances not considered by the Coordinating Council, which Abkhazia has boycotted since 2001. These talks have been supplemented by other discussions between Abkhaz and Georgian representatives. The U.S. Special Negotiator for NK and Eurasian Conflicts works with the U.N. Secretary General, his Special Representative, and other Friends of Georgia (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a peace settlement. A "New Friends of Georgia" group was formed by Bulgaria, Estonia, Latvia, Lithuania, Poland, and Romania in early 2005 to advocate increased EU and NATO involvement in Georgia, including in settling conflicts. Sticking points between the two sides have included Georgia's demand that displaced persons be allowed to return to Abkhazia, after which an agreement on broad autonomy for Abkhazia may be negotiated. The Abkhazians have insisted upon recognition of their effective independence as a precondition to large-scale repatriation. Since 2002, Abkhaz authorities have refused to consider a draft negotiating document prepared by the U.N. and the Friends of Georgia. They also have refused permission for a U.N.-OSCE human rights office in the Gali district (where many Georgians formerly resided).

Ajaria. Aslan Abashidze had controlled the semi-independent Ajaria region since 1991 and had long resisted many of Shevardnadze's attempts to establish central authority over the region. After being elected as Georgia's president in January 2004, Saakashvili called for the region to submit to central government authority. Saakashvili successfully appealed for the allegiance of many Georgian military and police elements in the region, and they abandoned loyalty to Abashidze. Russia offered sanctuary to Abashidze and flew him to Moscow on May 6, 2004.

Economic Conditions, Blockades, and Stoppages

The economies of all three South Caucasus states greatly declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remain fragile. Investment in oil and gas resources and delivery systems has fueled economic growth in Azerbaijan in recent years. Armenia's GDP was about \$1,160 per capita, Azerbaijan's about \$1,020, and Georgia's about \$1,200 (*Economist Intelligence Unit* and regional governments, 2004 estimates, market exchange rates). Widespread poverty and regional conflict have contributed to high emigration from all three states, and remittances from these emigres provide major support for the remaining populations.

Transport and communications obstructions and stoppages have severely affected economic development in the South Caucasus and stymied the region's emergence as an East-West and North-South corridor. Since 1989, Azerbaijan has obstructed railways and pipelines traversing its territory to Armenia. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports. Turkey has barred U.S. shipments of aid through its territory to Armenia since March 1993. P.L. 104-107 and P.L. 104-208 mandated a U.S. aid cutoff (with a presidential waiver) to any country which restricts the transport or delivery of U.S. humanitarian aid to a third country, aimed at convincing Turkey to allow the transit to U.S. aid to Armenia. According to the U.S. Embassy in Baku, Azerbaijan's Nakhichevan exclave "is blockaded by neighboring Armenia," severing its "rail, road, or energy links to the rest of Azerbaijan." Iran has at times obstructed bypass routes to Nakhichevan. Georgia has cut off natural gas supplies to South Ossetia and Russia has at times cut off gas supplies to Georgia. Georgia severely restricts traffic from South Ossetia.

Democratization Problems

The organization *Freedom House* considers Armenia and Georgia as somewhat more democratic than Azerbaijan. It judges the former two as "partly free," and in 2004 downgraded Azerbaijan's status to "not free," in part because of abuses surrounding its 2003 presidential election (see below).

Armenia. Illustrating ongoing challenges to stability in Armenia, in October 1999, gunmen entered the legislature and opened fire on deputies and officials, killing the prime minister, the legislative speaker, and six others. The killings may have been the product of personal and clan grievances. Political infighting led President Robert Kocharyan in mid-2000 to appoint former Soviet dissident Andranik Margaryan as prime minister. In a February 2003 presidential election, none of the nine candidates on the ballot received a required 50% plus one of the vote, forcing a run-off in March by the top two candidates, Kocharyan and People's Party head Stepan Demirchyan (the murdered speaker's son). OSCE and PACE observers termed the campaign vigorous and largely peaceful, but concluded that the election did not meet international standards for a free and fair race, because of "widespread" ballot box stuffing, a lack of transparency in vote-counting, and other "serious" irregularities.

In a legislative election held on May 25, 2003, six out of 21 parties running passed a 5% hurdle and won seats in the party list section of the voting (75 of 131 deputies were elected by party lists). Margaryan's Republican Party won about 25% of the votes, the opposition Justice bloc won 14% (led by Stepan Demirchyan), the pro-government Land of Laws Party won 12%, pro-government Dashnaktsutiun won 10%, the opposition National Unity Movement won 10%, and the pro-government United Labor Party won 5%. Many seats in individual constituency races were won by independents. The OSCE said that the election was "less flawed than the recent presidential poll, but still fell short of international standards." Proposed constitutional changes were also voted on, including those urged by the Council of Europe (COE), but were not approved by the voters. At its October 2004 meeting, PACE resolved that it remained disappointed by the government's delay in prosecuting those who orchestrated presidential election "fraud." New constitutional changes were under consideration in mid-2005.

Azerbaijan. Long-time ruler Heydar Aliyev suffered serious cardiac problems in April 2003 and was mostly in hospital up through the expiration of his presidential term. In what some critics termed a move to ensure a dynastic succession, the legislature convened on August 4 to confirm Ilkham as prime minister. In early October, the ailing Heydar Aliyev withdrew from a scheduled October 15, 2003, presidential election in favor of his son. Ilkham Aliyev handily won, beating seven other candidates with about 77% of the vote. Protests alleging a rigged vote resulted in violence, and spurred arrests of hundreds of alleged "instigators" of the violence. The State Department expressed "deep disappointment" with "serious deficiencies" in the election and "extreme concern" about post-election violence and "politically-motivated arrests." In February 2005, the OSCE issued a report that concluded that many of the dozens of post-election trials of oppositionists fell short of OSCE standards. PACE in March 2005 warned Azerbaijan that its membership status in the COE might be re-evaluated if the problems of "political prisoners" were not soon resolved. Days after this warning, Aliyev pardoned 114 prisoners, including 53 considered political prisoners by the COE. A legislative election is scheduled for November 2005.

Georgia. Georgia has experienced increased political instability in recent years. Polls before a November 2, 2003 legislative race and exit polling during the race suggested that the opposition National Movement (NM) and the United Democrats (UD) would win the largest shares of seats in the party list vote. Instead, official results gave the largest shares of seats to pro-Shevardnadze interests. The U.S. State Department criticized "massive vote fraud" in Ajaria and other regions. Demonstrators launched a "rose revolution" that led to Shevardnadze's resignation on November 23. Russia and the United States appeared to cooperate diplomatically during the crisis to urge Georgians to abjure violence.

UD co-leader and outgoing legislative Speaker Nino Burjanadze assumed the interim presidency and appointed co-leader Zurab Zhvania as State Minister (to oversee the ministries). UD and NM agreed to co-sponsor NM head Saakashvili for a January 4, 2004, presidential election. He received 96% of 2.2 million popular votes from a field of five candidates. OSCE observers judged the vote as freer and fairer than previous elections and as bringing Georgia closer to meeting democratic electoral standards. The legislature approved constitutional amendments in February 2004 that created the post of prime minister and confirmed Zhvania for the post (for background, see CRS Report RS21685, *Coup in Georgia*). After Zhvania's apparently accidental death in February 2005, his colleague Zurab Noghaideli was approved as prime minister.

President Bush visited Georgia on May 9-10, 2005, and praised its 2003 peaceful “rose revolution” for “inspiring democratic reformers” and freedom “from the Black Sea to the Caspian and to the Persian Gulf and beyond.” He urged the peaceful settlement of separatist conflicts and cautioned that Georgia’s integration into Euro-Atlantic institutions such as NATO depended on such an approach. He offered to “make a phone call or two” if Saakashvili asked him to help resolve the separatist conflicts but stressed that the United States could not impose a solution. Georgian President Mikheil Saakashvili hailed the Bush visit as marking “final proof that Georgia is an independent state with inviolable territory” and stressed that the U.S.-Georgian “partnership” ultimately was based on “our shared belief in freedom” and was the reason Georgia had sent troops to Iraq to end “enslavement” there.

The South Caucasus’s External Security Context

Russian Involvement in the Region

After Vladimir Putin became president in 1999, Russia appeared to place great strategic importance on maintaining influence in the South Caucasus region. But although such efforts appeared initially successful, over the past few months several developments may have altered this assessment, including the “rose revolution” in Georgia, NATO’s increased ties with Armenia, the completion of the Baku-Tbilisi-Ceyhan oil pipeline, Russia’s concerns about security in its North Caucasus regions, and Russia’s agreement to close its remaining military bases in Georgia.

At least until recently, Russia appeared to place the highest priority on exercising influence in the region in the military-strategic sphere, less on influence in the economic sphere, and a minimum on influence in the domestic political sphere, except for obtaining assurances on the treatment of ethnic Russians. Russia has viewed Islamic fundamentalism as a growing threat to the region, but has cooperated with Iran on some issues to counter Turkish and U.S. influence. Russia has tried to stop ethnic “undesirables,” drugs, weapons, and other contraband from entering its borders. It quashes separatism in its North Caucasus areas while seemingly backing it in the South Caucasus. The states have responded in various ways to Russian overtures. Armenia has close security and economic ties with Russia, given its unresolved NK conflict and grievances against Turkey. Georgia has protested Russia’s security actions against its breakaway Chechnya region, foot-dragging on closing military bases, and support to Abkhaz and South Ossetian separatists. Azerbaijan has been concerned about Russia’s ties with Armenia.

Military-Strategic Interests. Russia’s armed presence in the South Caucasus has been multifaceted, including thousands of military base personnel, “peacekeepers,” and border troops. The first step by Russia in maintaining a military presence in the region was the signing of the Commonwealth of Independent States (CIS) Collective Security Treaty (CST) by Armenia, Russia, and others in 1992, which pledges the members to consult in the event of a threat to one or several members, and to provide mutual aid if attacked (Azerbaijan and Georgia withdrew in 1999). Russia also secured permission for two military bases in Armenia and four in Georgia. Armenia reportedly pays Russia to help guard the Armenian-Turkish border. The total number of Russian troops has been estimated at about 3,500 in Armenia. Another 103,000 Russian troops are stationed nearby in the North Caucasus (*The*

Military Balance 2004-2005). In 1993, Azerbaijan was the first Eurasian state to get Russian troops to withdraw, except at the Gabala radar site in northern Azerbaijan. (Giving up on closing the site, in January 2002 Azerbaijan signed a 10-year lease agreement with Russia permitting up to 1,500 troops at the site.) By October 1999, most Russian border troops had left Georgia. Armenia has argued that its Russian bases provide for regional stability by protecting it from attack.

Azerbaijan and Georgia have raised concerns about the spillover effects of Russia's military operations in Chechnya. In December 1999, the OSCE agreed to Georgia's request to send observers to monitor its border with Chechnya (later this monitoring was expanded to nearby border areas). These monitors notified authorities about hundreds of illegal border crossings and were regarded by many observers as helping to assuage Russian concerns by providing a more accurate picture of conditions and by discouraging crossings by armed rebels who might fear detection. In December 2004, Russia withheld its approval to extend the observer mandate, terming their help "ineffective." The United States on March 10, 2005, stated that it was "disappointed" by OSCE delays in discussing alternative means to monitor the borders, and the U.S. Senate that same day approved S.Res. 69 that called for continued border monitoring (see below, **Legislation**). In April 2005, the OSCE decided to allocate 2.6 million euros and personnel to train Georgian border guards.

After the September 11, 2001 terrorist attacks in the United States, Russia stepped up its claims that Georgia harbored Chechen terrorists (with links to al Qaeda) who used Georgia as a staging ground for attacks into Chechnya. The United States expressed "unequivocal opposition" to military intervention by Russia inside Georgia. Georgia launched a policing effort in the Gorge and agreed with Russia to some coordinated border patrols in late 2002 that somewhat reduced tensions over this issue. In February 2004, Saakashvili reportedly pledged during a Moscow visit to combat "Wahabbis" (referring to Islamic extremists) in Georgia, including Chechen terrorists hiding in the Pankisi Gorge and international terrorists that Russia alleged had transited Georgia to fight in Chechnya (for background, see CRS Report RS21319, *Georgia's Pankisi Gorge*).

Russia's Bases in Georgia. In 1999 Russia and Georgia agreed to provisions of the adapted Conventional Armed Forces in Europe (CFE) Treaty calling for Russia to reduce weaponry at its four bases in Georgia, to close two of the bases (at Gudauta and Vaziani) by July 2001, and to complete negotiations during 2000 on the status of the other two bases (at Batumi and Akhalkalaki). The Treaty remains unratified by NATO signatories until Russia satisfies these and other conditions. On July 1, 2001, Georgia reported that Russia had turned over the Vaziani base. Russia declared in June 2002 that it had closed its Gudauta base, but that 320 troops would remain to support Russian "peacekeepers" taking leave at the base. Georgia objected to this stance. Russian Defense Minister Sergey Ivanov stated in June 2005 that there were about 2,500 Russian troops at the bases.

Putting pressure on Russia to abide by its commitments, the Georgian legislature in March 2005 passed a resolution calling for Russia to come to an agreement by mid-May on closing the bases by January 2006 or face various restrictions on base operations. This pressure, and perhaps the U.S. presidential visit, spurred Russia to come to an agreement with Georgia announced on May 30, 2005, setting 2008 as the deadline for closing the bases. Reportedly, the Russian base at Akhalkalaka will be closed by the end of 2007, and the base at Batumi will be closed during 2008. Paving the way for this agreement, President Putin

on May 23 stated that Georgia had the sovereign right to request the base closures and that his military General Staff had assured him that the bases were Cold War-era relics of no strategic importance to Russia. The Russian Defense Ministry announced in July that it had begun building facilities for two alpine brigades near Georgia's borders "to stop attempts by terrorists to penetrate Russia from Georgia." Some observers raised concerns that some unspecified parts of the bases being vacated could be used for a proposed joint anti-terrorism center, possibly providing a means for Russia to retain a security presence in Georgia.

Caspian Energy Resources. Russia has tried to play a significant role in future oil production, processing, and transportation in the Caspian Sea region. 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 oil and gas pipelines from Azerbaijan to Turkey that do not transit Russia. In March 2004, however, a Russian official stated that Putin wanted to ensure that the greatest volume of Caspian energy flowed through Russia.

The Protection of Ethnic Russians and "Citizens". Russia has claimed to be concerned about discrimination and other human rights abuses committed in Azerbaijan and Georgia against ethnic Russians and pro-Russian groups. According to the *CIA World Factbook*, however, ethnic Russians constituted only about 3.6% of the region's population in 2002. A new Russian citizenship law enacted in 2002 made it easier to grant citizenship and passports to most residents of Abkhazia and South Ossetia. Russia's *Novosti* news service in March 2005 quoted newly elected Abkhaz "president" Sergey Bagapsh as saying that "most Abkhaz leaders are citizens of Russia, and [I am] also a citizen." Putin interfered in October 2004 in this election by appearing to favor Raul Khajimba, a former Russian security agent. However, both Khajimba and Bagapsh claimed to have won a tight race. Moscow orchestrated a power-sharing arrangement, and the two candidates ran and won on the same ticket in a new election held in January 2005.

The Roles of Turkey, Iran, and Others

The United States has generally viewed Turkey as able to foster pro-Western policies and discourage Iranian interference in the South Caucasus states, though favoring Azerbaijan in the NK conflict. Critics of Turkey's larger role in the region caution that the United States and NATO might be drawn by their ties with Turkey into regional imbroglios. Turkey seeks good relations with Azerbaijan and Georgia and some contacts with Armenia, while trying to limit Russian and Iranian influence. Azerbaijan likewise views Turkey as a major ally against such influence, and to balance Armenia's ties with Russia. Armenia is a member of the Black Sea Economic Cooperation organization, along with Turkey, and the two states have established consular relations. Obstacles to better Armenian-Turkish relations include Turkey's rejection of Armenians' claims of genocide in 1915-1923 and its support for Azerbaijan in the NK conflict. Georgia has an abiding 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. Turkey has hoped to benefit from the construction of new pipelines delivering oil and gas westward from the Caspian Sea.

Iran's goals 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. A major share of the world's Azerbaijanis reside in Iran (estimates range from 6-12 million), as well as about 200,000 Armenians. Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered by limiting trans-Azerbaijani contacts. Azerbaijani elites fear Iranian-supported Islamic extremism and object to Iranian support to Armenia. Iran has growing trade ties with Armenia and Georgia, but its trade with Azerbaijan has declined. To block the West and Azerbaijan from developing Caspian Sea energy, Iran long has insisted on either common control by the littoral states or the division of the seabed into five equal sectors. Iranian warships have challenged Azerbaijani oil exploration vessels. Some thawing in Azerbaijani-Iranian relations occurred in early 2005 with Ilkham Aliyev's visit to Iran and the long-delayed opening of an Azerbaijani consulate in Tabriz. U.S. policy aims to contain Iran's threats to U.S. interests (See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*).

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. The South Caucasus region has developed some economic and political ties with other Black Sea and Caspian Sea littoral states, besides those discussed above. Azerbaijan shares with Central Asian states common linguistic and religious ties and concerns about some common bordering powers (Iran and Russia). The South Caucasian and Central Asian states have common concerns about ongoing terrorist threats and drug trafficking from Afghanistan. Central Asia's increasing energy and other trade with the South Caucasus will make it more dependent on stability in the region.

U.S. Aid Overview

The United States is the largest bilateral aid donor by far to Armenia and Georgia, and the two states are among the four Eurasian states that each have received more than \$1 billion in U.S. aid FY1992-FY2004 (the others are Russia and Ukraine). See **Table 1**. U.S. assistance has included FREEDOM Support Act (FSA) programs, food aid (U.S. Department of Agriculture), Peace Corps, and security assistance. Armenia and Georgia have regularly ranked among the top world states in terms of per capita U.S. aid, indicating the high level of concern within the Administration and Congress. Foreign Operations Appropriations for FY1998 (P.L. 105-118) created a new South Caucasian funding category, which still exists, to emphasize regional peace and development. Besides bilateral aid, the United States contributes to multilateral organizations such as the International Monetary Fund and the World Bank that aid the region.

In January 2004, Congress authorized a major new development assistance program, the Millennium Challenge Account (Section D of P.L. 108-199). A newly established Millennium Challenge Corporation announced in May 2004 that Armenia and Georgia would be among the first states invited to apply for aid. Georgia was deemed eligible despite low scores on "ruling justly," "encouraging economic freedom," and "investing in people," with the Corporation arguing that the new government in Georgia appeared reformist. This

assistance could dwarf that appropriated under the authority of the FREEDOM Support Act. Armenia and Georgia have received none of this aid as of mid-2005.

In perspective, cumulative EU aid to the region has totaled about \$1 billion over the past decade. However, in 2004 EU foreign ministers invited the South Caucasus states to participate in a “Wider Europe” program of enhanced aid, trade, and political ties. A World Bank/EU-sponsored donor conference that month resulted in over \$1 billion in three-year pledges for development in Georgia (U.S. pledges amounted to about one-third of the total).

U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after September 11, 2001, though overall aid amounts to the countries did not increase post-September 11 as they did in regard to the Central Asian “front line” states in the war on terrorists in Afghanistan (see **Table 1**). In testimony to the Senate Armed Services Committee on March 1, 2005, Gen. James Jones, head of U.S. European Command (EUCOM), stated that “the Caucasus is increasingly important to our interests. Its air corridor has become a crucial lifeline between coalition forces in Afghanistan and our bases in Europe. Caspian oil, carried through the Caucasus, may constitute as much as 25 percent of the world’s growth in oil production over the next five years ... This region is a geographical pivot point in the spread of democracy and free market economies to the states of Central and Southwest Asia.”

EUCOM initiatives in the region include the Sustainment and Stability Operations Program (SSOP) in Georgia, the South Caucasus Clearinghouse, the Caspian Guard program, and the Caspian Hydrocarbons initiative. The 16-month SSOP was launched in early 2005 as a follow-on to the Georgia Train and Equip Program (GTEP; see below). Funded at \$64 million, SSOP is providing training for four battalions (2,000 troops), in part to support U.S.-led coalition operations. When completed, the United States will have provided training to a major portion of Georgia’s armed forces. However, Georgian media have reported that many of the U.S.-trained troops are not re-enlisting. The Clearinghouse aims to facilitate cooperation by sharing information on security assistance programs among both donor and recipient countries. Gen. Jones testified that the Caspian Guard program, launched in 2003, enhances and coordinates security assistance provided by U.S. agencies to establish an “integrated airspace, maritime and border control regime” for the littoral states of Azerbaijan and Kazakhstan. The Hydrocarbons initiative provides maritime security and crisis response and consequence management assistance to help the regional states protect their pipelines and other energy transport to the West. Gen. Charles Wald, deputy head of EUCOM, in November 2004 suggested that the Administration was exploring the possible establishment of “cooperative security locations” — sites without a full-time U.S. military presence that are used for refueling and short-duration deployments — in Azerbaijan or Georgia.

Azerbaijani and Georgian leaders have stated that they want their countries to join NATO; much greater progress in military reform, however, will likely be required before they are considered for membership. All three states joined NATO’s Partnership for Peace (PFP) in 1994. Troops from Armenia, Azerbaijan, and Georgia serve as peacekeepers in NATO-led operations in Kosovo and the latter two states support NATO-led operations in Afghanistan. There reportedly have been some fistfights and even a murder involving

Armenians and Azerbaijanis during some PFP activities. NATO cancelled a PFP exercise in Azerbaijan in September 2004, stating that Azerbaijan had violated NATO principles of inclusiveness by refusing to host Armenian forces. The June 2004 NATO summit pledged enhanced attention to the South Caucasian and Central Asian PFP members. A Special Representative of the NATO General Secretary was appointed to encourage democratic civil-military relations, transparency in defense planning and budgeting, and enhanced force interoperability with NATO.

Until waived, Section 907 had prohibited much U.S. security aid to Azerbaijan, including Foreign Military Financing (FMF), and International Military Education & Training (IMET). By U.S. policy, similar aid had not been provided to Azerbaijan's fellow combatant Armenia. From 1993-2002, both had been on the Munitions List of countries ineligible for U.S. arms transfers. The Conference Report (H.Rept. 108-792) on H.R. 4818 (P.L.108-447; Consolidated Appropriations for FY2005) directed that FMF funding for Armenia be boosted to match that for Azerbaijan (from \$2 million as requested to \$8 million). The Members appeared to reject the Administration's assurances that the disparate aid would not affect the Armenia-Azerbaijan military balance or undermine peace talks. Apparently in anticipation of congressional calls for equal security assistance for Armenia and Azerbaijan, the Administration's FY2006 foreign aid budget requests equal amounts of FMF as well as IMET for each country.

A \$64 million Georgia Train and Equip Program (GTEP) was carried out in 2002-2004 that U.S. officials explained would help Georgian military, security, and border forces to combat Chechen, Arab, Afghani, al Qaeda, and other terrorists who allegedly had infiltrated Georgia. Some of these terrorists allegedly had fled U.S.-led coalition operations in Afghanistan, so the GTEP was initially linked to OEF. Other reported U.S. aims include bolstering Georgia's ability to guard its energy pipelines and ensuring internal stability. The program formally ended in April 2004 (see above, SSOP).

U.S. Trade and Investment

The Bush Administration and others maintain that U.S. support for privatization and the creation of free markets directly serve U.S. national interests by opening new markets for U.S. goods and services and sources of energy and minerals. Among U.S. economic links with the region, bilateral trade agreements providing for normal trade relations for products have been signed and entered into force with all three states. Bilateral investment treaties providing national treatment guarantees have entered into force. U.S. investment is highest in Azerbaijan's energy sector, but rampant corruption in the three regional states otherwise has discouraged investors. With U.S. support, in June 2000 Georgia became the second Eurasian state (after Kyrgyzstan) to be admitted to the WTO. The application of Title IV of the Trade Act of 1974, including the Jackson-Vanik amendment, was terminated with respect to Georgia in December 2000, so its products receive permanent nondiscriminatory (normal trade relations or NTR) treatment. Armenia was admitted into WTO in December 2002. The application of Title IV was terminated with respect to Armenia in January 2005. (For further information, see CRS Report 98-545, *The Jackson-Vanik Amendment: A Survey.*)

Energy Resources and U.S. Policy

The U.S. Energy Department reports estimates of 7-13 billion barrels of proven oil reserves, and estimates of 30 trillion cubic feet of proven natural gas reserves in Azerbaijan (*Country Analysis Brief*, June 2005). U.S. policy goals regarding energy resources in the Central Asian and South Caucasian states have included supporting their sovereignty and ties to the West, supporting U.S. private investment, breaking Russia's monopoly over oil and gas transport routes by encouraging the building of pipelines that do not traverse Russia, promoting Western energy security through diversified suppliers, assisting ally Turkey, and opposing the building of pipelines that transit Iran. These goals are reflected in the Administration's May 2001 *National Energy Policy* report. It recommends that the President direct U.S. agencies to support building the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, expedite use of the pipeline by oil companies operating in Kazakhstan, support constructing a gas pipeline to export Azerbaijani gas, and otherwise encourage the Caspian regional states to provide an appealing business climate for energy and infrastructure development.

Since September 11, 2001, the Administration has emphasized the vulnerability of the United States to possible energy supply disruptions and intensified its commitment to develop Caspian energy and the BTC pipeline as part of a strategy of diversifying world energy supplies. Critics of such a focus on the Caspian argue that oil from the region will amount to less than 4% of world supplies. U.S. companies are shareholders in three international production-sharing consortiums, including the Azerbaijan International Operating Company (AIOC), formed to exploit Azerbaijan's oil and gas fields. In 1995, Heydar Aliyev and the AIOC decided to transport "early oil" (the first and lower volume of oil) through two revamped Soviet-era pipelines in Georgia and Russia to ports on the Black Sea, each with a capacity of around 100-115,000 barrels per day. The trans-Russia "early oil" pipeline began delivering oil to the port of Novorossiisk in late 1997. The trans-Georgian pipeline began delivering oil to Black Sea tankers in early 1999. The BTC pipeline is scheduled to begin delivering oil in late 2005; the associated gas pipeline, in late 2006.

Table 1. U.S. FY1992-FY2004 and FY2004 Budgeted Aid, FY2005 Estimated Aid, and the FY2006 Foreign Assistance Request
(millions of dollars)

South Caucasus Country	FY1992-FY2004 Budgeted Aid ^a	FY2004 Budgeted Aid ^a	FY2005 Estimate ^c	FY2006 Request ^c
Armenia	1,487.6	89.39	80.7	63.19
Azerbaijan	500.11	79.54	52.61	48.13
Georgia	1,409.0	147.19	103.72	85.25
Total	3,396.71	333.29	237.03	196.57

Sources: State Department, Office of the Coordinator for U.S. Assistance to Europe and Eurasia; State Department, *U.S. Government Assistance to and Cooperative Activities with Eurasia: FY2003 Annual Report*, January 2004.

- a. FREEDOM Support Act and Agency budgets;
- b. Caucasus Regional funds are included in the total.
- c. FREEDOM Support Act and other Function 150 funds (does not include Defense or Energy Department funding or funding for exchanges).

The Clinton Administration launched a campaign in 1997 stressing the strategic importance of the BTC route as part of an “Eurasian Transport Corridor.” In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the “Istanbul Protocol” on construction of the 1,040-mile BTC oil pipeline. In August 2002, the BTC Company was formed to construct, own, and operate the oil pipeline. BTC hopes to begin loading tankers at Ceyhan in late 2005. A gas pipeline to Turkey is being built parallel to the oil pipeline.

There are objections from some in Armenia about lack of access to these pipelines, but Armenian Foreign Minister Oskanyan in January 2004 suggested that the pipelines could make Azerbaijan reticent to launch conflict. Armenia and Iran signed accords in 2004 on building a gas pipeline to link up with Iran’s pipelines. At a ceremony in Baku on May 25, 2005, to inaugurate the completion of the BTC pipeline, Energy Secretary Samuel Bodman claimed that “the BTC pipeline will play a crucial role in global energy politics and have a considerable impact on global energy resources.”

LEGISLATION

H.R. 3057 (Kolbe)

Foreign Operations Appropriations for FY2006. Introduced June 24, 2005 (H.Rept. 109-152). Passed House on June 28, 2005. Introduced in Senate June 30, 2005 (S.Rept. 109-96) with an amendment in the nature of a substitution. H.Rept.109-152 recommends that Armenia and Azerbaijan equally receive \$5,000,000 for Foreign Military Financing (FMF) and \$750,000 for International Military Education and Training (IMET), as requested. S.Rept. 109-96 calls for \$75 million in FREEDOM Support Act (FSA) aid to Armenia (\$20 million above the request), \$38 million for Azerbaijan (\$3 million above the request), and \$70.5 million for Georgia (\$3.5 million above the request). It endorses funding levels for FSA, FMF, and IMET aid to Armenia matching those of the House, and \$700,000 for Non-proliferation, Anti-terrorism, Demining, and Related Programs (NADR). It calls for \$14 million in FMF for Georgia (\$2 million above the request). The Senate Appropriations Committee also recommends \$3 million for humanitarian and relief assistance for Nagorno-Karabakh. It calls for more support for political process programming in Azerbaijan, stating that “freedom is ill served by excessive hand wringing over concerns with projecting political balance in programming or of offending authoritarian host governments.” The Committee warns that “an authoritarian Russia presents a growing danger to countries undergoing democratic transition in the region.”

H.R. 3103 (Schiff)

To direct the Secretary of State to submit a report outlining the steps taken and plans made by the United States to end Turkey’s blockade of Armenia. Introduced June 29, 2005.

H.R. 3361 (Knollenberg)

To prohibit U.S. assistance to develop or promote any rail connections or railway-related connections that traverse or connect Baku, Azerbaijan; Tbilisi, Georgia; and Kars, Turkey, and that specifically exclude cities in Armenia. Introduced July 20, 2005.

H.Con.Res. 195 (Schiff)

Commemorating the Armenian Genocide of 1915-1923. Introduced June 29, 2005.

H.Res. 316 (Radanovich)

Calling upon the President to ensure that U.S. foreign policy reflects appropriate understanding and sensitivity concerning issues related to human rights, ethnic cleansing, and genocide documented in the U.S. record relating to the Armenian Genocide. Introduced June 14, 2005.

H.Res. 326 (Gallegly)

Calling for free and fair parliamentary elections in the Republic of Azerbaijan. Introduced June 16, 2005. Passed on July 20, 2005.

S.Res. 69 (Lugar)

A resolution expressing the sense of the Senate about the actions of Russia regarding Georgia and Moldova. Resolves that the United States should urge Russia to live up to its 1999 OSCE commitments to close or otherwise resolve the status of its military bases in Georgia and Moldova; maintain strong diplomatic pressure (in cooperation with European allies) to permit an OSCE Border Monitoring Operation (BMO) in Georgia to continue; and seek (if BMO ceases to exist) an international presence to monitor borders between Georgia and Russia. Introduced March 3, 2005, and agreed to on March 10.

S.Res. 139 (Reid)

A resolution expressing support for the withdrawal of Russian troops from Georgia. Introduced May 12, 2005. Passed on May 12, 2005.

Figure 1. Map of the Region



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