

CRS Report for Congress

Received through the CRS Web

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

Updated October 20, 2006

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

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 to encourage building multiple energy pipelines to world markets. The United States has been active in diplomatic efforts to end conflicts in the region, several of which remain unresolved.

The FREEDOM Support Act of 1992 (P.L. 102-511) authorizes 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. Until the September 11, 2001, terrorist attacks on the United States, this provision had been altered only to permit humanitarian and democratization aid, border security and customs support to promote non-proliferation, Trade and Development Agency aid, Overseas Private Investment Corporation insurance, Export-Import Bank financing, and Foreign Commercial Service activities.

In the aftermath of the September 11 attacks, the Administration appealed for a national security waiver for Section 907, in consideration of the country's support 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 in February 2006. As part of the U.S. Global War on Terror, the U.S. military in 2002 began providing equipment and training for Georgia's military and security forces. Azerbaijani and Georgian troops participate in stabilization efforts in Afghanistan and Iraq, and Armenian personnel serve in Iraq.

Some observers argue that developments in the South Caucasus 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 region. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, and Islamic extremism and to bolster the independence of the states. Some argue that energy resources in the Caspian region are a central U.S. strategic interest. This CRS report replaces CRS Issue Brief IB95024, *Armenia, Azerbaijan, and Georgia*, by Jim Nichol.

Contents

| | |
|--|----|
| Most Recent Developments | 1 |
| Background | 2 |
| Overview of U.S. Policy Concerns | 2 |
| Post-September 11 | 3 |
| Operations in Iraq | 4 |
| Obstacles to Peace and Independence | 4 |
| Regional Tensions and Conflicts | 4 |
| Nagorno Karabakh Conflict | 5 |
| Civil and Ethnic Conflict in Georgia | 6 |
| Economic Conditions, Blockades, and Stoppages | 9 |
| Democratization and Human Rights Problems | 9 |
| Armenia | 10 |
| Azerbaijan | 10 |
| Georgia | 12 |
| The South Caucasus's External Security Context | 13 |
| Russian Involvement in the Region | 13 |
| Caspian Energy Resources | 14 |
| Military-Strategic Interests | 14 |
| The Roles of Turkey, Iran, and Others | 16 |
| U.S. Aid Overview | 17 |
| U.S. Security Assistance | 18 |
| U.S. Trade and Investment | 20 |
| Energy Resources and U.S. Policy | 21 |
| 109 th Congress Legislation | 22 |

List of Figures

| | |
|-----------------------------------|----|
| Figure 1. Map of the Region | 25 |
|-----------------------------------|----|

List of Tables

| | |
|---|----|
| Table 1. U.S. FY1992-FY2005 and FY2005 Budgeted Foreign Assistance, FY2006 Estimated Aid, and the FY2007 Request | 24 |
|---|----|

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

Most Recent Developments

Georgia's arrest of four Russian servicemen in late September 2006 on charges of espionage heightened tensions between Georgia and Russia. Although Georgia handed over the servicemen on October 2, Russia has taken a series of measures viewed as troubling by many international observers, including cutting off financial flows to Georgia, raiding ethnic Georgian-owned businesses, expelling hundreds of Georgians, and compiling lists of ethnic Georgians in the public schools. On October 17, 2006, the European Union's External Relations Council called on both sides to "tone down public rhetoric" and open diplomatic dialogue, but it also stressed "its grave concern at the measures adopted by [Russia] against Georgia.... The Council urges [Russia] not to pursue measures targeting [ethnic] Georgians" in Russia. The head of the Council, Benita Ferrero-Waldner, emphasized that actions in Russia targeting ethnic Georgians "are extremely worrying" and "cannot contribute to a return to calm" in Russia-Georgia relations. At an EU-Russia meeting on October 20, 2006, Russian President Putin reportedly blamed worsening Russia-Georgia ties on Georgia and warned that Georgia's relations with Abkhazia and South Ossetia were "developing in the direction of possible bloodshed."¹

On October 13, 2006, the U.N. Security Council (UNSC) approved a resolution extending the mandate of the U.N. Observer Mission in Georgia (UNOMIG) in the breakaway Abkhaz region for another six months, until the end of April 2007. The Security Council criticized Georgia for introducing military forces into the Kodori Gorge area of Abkhazia in violation of cease-fire accords and for other "militant rhetoric and provocative actions" and called on it to abide by the accords. Some violations by Abkhaz forces were also criticized. The UNSC stressed the "important" and "stabilizing" role played by Russian peacekeepers and UNOMIG in Abkhazia.² Some Georgian officials viewed the resolution as negating their calls for a wider international composition of the peacekeeping forces.

¹ Council of the European Union. 2756th Council Meeting. General Affairs and External Relations. *Press Release: Provisional Version*, 13340/06 (Presse 265), October 16-17, 2006.

² U.N. Security Council. *Resolution 1716 (2006), Adopted by the Security Council at its 5549th meeting*, October 13, 2006.

Background

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. All three peoples can point to periods of past autonomy or self-government. 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 1991.³

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 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).

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: 15.57 million, similar to Netherlands; Armenia: 2.98 m.; Azerbaijan: 7.91 m.; Georgia: 4.68 m. (*CIA World Factbook*, July 2005 est.). Over a million people from the region are migrant workers in Russia and elsewhere.

GDP: \$67.9 billion; Armenia: \$15.3 b.; Azerbaijan: \$36.5 b.; Georgia: \$16.1 b. (*World Factbook*, 2005 est., purchasing power parity)

In June 2006, Deputy Assistant Secretary of State Matthew Bryza stated that the United States has three inter-related sets of interests in the region: "we're not embarrassed to say that energy is a strategic interest. We [also] have ... traditional security interests — meaning fighting terrorism, fighting proliferation, avoiding military conflict, and restoring (or preserving, in some cases) the territorial integrity of the states of the region.... And then we have a third set of interests, in ... democratic and market economic reform ... based on our belief that stability only

³ For background, see CRS Report RS20812, *Armenia Update*, by Carol Migdalovitz; CRS Report 97-522, *Azerbaijan: Recent Developments and U.S. Interests*; and CRS Report 97-727, *Georgia: Recent Developments and U.S. Interests*, by Jim Nichol.

comes from legitimacy. And legitimacy requires democracy on the political side and prosperity on the economic side.”⁴

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. Since 1993, successive U.S. Special Negotiators for Eurasian Conflicts have helped in various ways to try to settle these “frozen” conflicts. (In early 2006, the State Department reportedly decided to eliminate this post and divide its responsibilities among the Deputy Assistant Secretary of State and the Office of Caucasus Affairs and Regional 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 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 region. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, 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, because Azerbaijani and Central Asian oil and natural gas deliveries would lessen slightly Western energy dependency on Russia and the Middle East (see below, *Energy Resources*).

Post-September 11. In the wake of September 11, 2001, the United States obtained quick pledges from the three South Caucasian 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 shifted, resulting in presidential waiver authority being incorporated into 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

⁴ “U.S. Says Aliyev, Kocharyan Must Show ‘Political Will,’” *RFE/RL*, June 23, 2006.

renewed annually, and sixty days after the exercise of the waiver, the President must report to Congress on the nature of aid to be provided to Azerbaijan, the military balance between Armenia and Azerbaijan and the effects of U.S. aid on that balance, the status of Armenia-Azerbaijan peace talks, and the effects of U.S. aid on those talks. President Bush has exercised the waiver annually, most recently on February 8, 2006. Since late 2002, Azerbaijan has contributed troops for peacekeeping in Afghanistan (23 troops were deployed in early 2006), and Georgia contributed about 50 troops during Afghan elections in late 2004-early 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 almost 900 troops as of July 2005, making it a major contributor. Armenia began sending personnel to Iraq in January 2005, where 46 serve with the Polish contingent.

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/transportation 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 for all three states. The secessionist 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 about 15,000 casualties and hundreds of thousands of refugees and displaced persons in Armenia and Azerbaijan. The U.N. High Commissioner for Refugees has reported that at the end of 2005, there were still about 581,500 people considered refugees or displaced persons in Azerbaijan and 219,550 in Armenia.⁵ Armenia has granted citizenship and acted to permanently house many of the ethnic Armenians who fled Azerbaijan. The non-governmental International Crisis Group estimates that about 13-14% of Azerbaijan's territory, including NK, is controlled by NK Armenian forces (the *CIA World Factbook* estimates about 16%).⁶ The OSCE's "Minsk Group" of concerned member-states began talks in 1992. A U.S. presidential envoy was appointed to these talks. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). The United States, France, and Russia co-chair meetings of the Minsk Group.

The Minsk Group reportedly has presented four proposals as a framework for talks, but a peace settlement has proved elusive. In late 1997, a new step-by-step peace proposal was recognized by the presidents of Azerbaijan and Armenia as a basis for further discussion. This led to protests in both countries and to the forced resignation of Armenian President Levon Ter-Petrosyan in early 1998. Heydar Aliyev in early 2001 stated that he had "turned down" and refused to discuss a late 1998 Minsk Group proposal embracing elements of a comprehensive settlement.⁷ The assassination of Armenian political leaders in late 1999 set back the peace process. In April 2001, the two presidents attended talks in Key West, Florida, and then met with President Bush, highlighting early Administration interest in a settlement. In January 2003, Armenia's President, Robert Kocharyan, proclaimed that its peace policy rested on three pillars: a "horizontal" — instead of hierarchical — relationship between NK and Azerbaijan; a secure land corridor between Armenia and NK; and security guarantees for NK's populace.⁸ 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."⁹ Since 2005, media in both countries have reported negotiations on a fourth "hybrid" peace plan to return most NK border areas prior to a referendum in NK on its status.

The Minsk Group co-chairs issued a statement and made other remarks in April-July 2006 that revealed some of their proposals for a settlement. These include the phased redeployment of Armenian troops from Azerbaijani territories around Nagorno-Karabakh, with special modalities for Kelbajar and Lachin districts

⁵ U.N. High Commissioner for Refugees. *2005 Global Refugee Trends*, June 2006.

⁶ International Crisis Group. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005; CIA World Factbook. *Azerbaijan*, [<http://www.odci.gov>].

⁷ Open Source Information Center (OSIC), *Central Eurasia: Daily Report*, February 27, 2001, Doc. No CEP-262.

⁸ OSIC, January 17, 2003, Doc. No. CEP-338.

⁹ OSIC, October 13, 2004, Doc. No. CEP-11.

(including a corridor between Armenia and NK); demilitarization of those territories; the deployment of international peacekeepers in the conflict area; and a popular referendum (at some time and manner to be determined) on the status of NK. To urge the sides to reach a settlement, the deputy foreign minister of Russia, the U.S. Assistant Secretary of State, and a high-ranking French diplomat traveled to the region in May.

At peace talks in Bucharest on June 4-5, 2006, the presidents of Armenia and Azerbaijan reportedly agreed on some basic principles but failed to reach a settlement. In statements issued after this meeting, the Minsk Group co-chairs raised concerns that the two presidents lacked the “political will” to make decisions about a settlement and stated that they would wind down their “shuttle diplomacy” until the two presidents demonstrated political will.¹⁰ Disagreeing with the Minsk Group settlement proposals, President Aliyev in early July 2006 stated that the withdrawal of NK forces from occupied territories (including NK itself) must be followed by the return of Azerbaijani displaced persons. Then, he averred, Azerbaijani (including NK) citizens would discuss the status of NK, but its secession from Azerbaijan was forbidden.¹¹

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. Most residents of Abkhazia and South Ossetia reportedly have been granted Russian citizenship.

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 North and 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. 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

¹⁰ In June 2006, the duties of the U.S. co-chair were transferred to the Deputy Assistant Secretary of State. On the proposals, see *RFE/RL*, June 23, 2006; U.S. Embassy in Armenia, *Statement by the Minsk Group Co-Chairs to the OSCE Permanent Council*, June 22, 2006; and *Statement by the OSCE Minsk Group Co-Chairs*, July 3, 2006.

¹¹ Leyla Tavshanoglu, Interview with the President of Azerbaijan, *Cumhuriyet*, July 4, 2006.

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. Georgian guerrilla forces also reportedly entered the region. Allegedly, Russian officials likewise assisted several hundred paramilitary elements from Abkhazia, Transnistria, and Russia to enter. 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 July 2005 that offered substantial autonomy and a three-stage settlement, consisting of demilitarization, economic rehabilitation, and a political settlement. South Ossetian “president” Eduard Kokoiti rejected the plan, asserting in October 2005 that “we [South Ossetians] are citizens of Russia.”¹² The Georgian peace plan received backing by the OSCE Ministerial Council in early December 2005. Perhaps faced with this international support, in mid-December 2005, Kokoiti proffered a South Ossetian peace proposal that in most respects was similar to Saakashvili’s plan. The two sides agreed in late December 2005 that a working group would be formed under the JCC to reconcile and elaborate the plans. The OSCE sponsored a donor’s conference in May 2006 that garnered pledges of over \$10 million for economic reconstruction in the conflict area. Russia stated that it would provide about \$3.7 million to South Ossetia, outside of the OSCE framework, which drew protests from Georgia (see also below, *Russian Involvement*).

The U.S. Mission to the OSCE issued a statement on August 11, 2006, that called for international monitoring of the Roki Tunnel (separating Russia from South Ossetia), a permanent checkpoint at Didi Gupta (a South Ossetian village near Roki on a transport route), and an increase in the number of OSCE monitors in the region. The statement also urged “meaningful progress” on the peace plan endorsed by the OSCE. However, at a JCC meeting on August 17-18, 2006, in Moscow, the Ossetian and Russian emissaries reportedly balked at forming the working group under the JCC to work on the peace plan. Kokoiti a few days later announced that a popular referendum would be held in the region in November 2006 to reaffirm its “independence” from Georgia. After a planned JCC meeting in mid-September fell through, the Georgian state minister argued that the JCC format “was no longer of any use.”¹³ Emissaries at a JCC meeting on October 12-13, 2006, reportedly failed to agree on a communique or a date for the next meeting.¹⁴

Abkhazia. In July 1992, Abkhazia’s legislature declared the region’s effective independence, prompting an attack by Georgian national guardsmen. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a Eurasian state, termed UNOMIG, to help the parties reach a settlement. Russian and North Caucasian “volunteers” (who reportedly made up the bulk of Abkhaz separatist forces) routed Georgian forces. Georgia and Abkhazia agreed in April 1994 on a framework for a political settlement and the return of refugees. A

¹² OSIC, October 7, 2005, Doc. No. CEP-15001. OSIC, December 12, 2005, Doc. No. CEP-27204. Perhaps another indicator of Russia’s role in South Ossetia, Kokoiti claimed in August 2006 that South Ossetia’s “ministries” were “working in accordance” with those in North Ossetia, Russia. *Civil Georgia*, August 8, 2006.

¹³ OSIC, September 15, 2006, Doc. No. CEP-950088.

¹⁴ OSIC, October 2, 2006, Doc. No. CEP-950201; October 13, 2006, Doc. No. CEP-950333.

Quadrupartite Commission (QC) was set up to discuss repatriation and Russian troops (acting as CIS “peacekeepers”) were deployed along the Inguri River dividing Abkhazia from the rest of Georgia. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians. In late 1997, the sides agreed to set up a Coordinating Council (CC) to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. The QC meets periodically and addresses grievances not considered by the CC.

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

Since 2001, Abkhazia resisted holding CC meetings, but the two sides finally met on May 15, 2006, and the Abkhaz “foreign minister” proffered a new peace plan. Georgia found the plan “interesting” but rejected it, claiming that the plan was in effect a declaration of independence. In late May 2006, Georgia proffered an alternative peace plan, which Abkhazia in turn reportedly rejected as unconstructive. The almost weekly meetings of the CC were broken off by the Abkhaz side at the beginning of August 2006, for reasons relating to Georgia’s actions in Abkhazia’s Kodori Gorge area (see below). On October 2, 2006, Abkhazia announced the suspension of all talks with Georgia because of Georgia’s reported cease-fire violations.¹⁵

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

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

Abkhazia asserts that many troops are still present, in violation of the ceasefire agreement. The U.S. Mission to the OSCE issued a statement on August 11, 2006, that supported demilitarizing the Kodori Gorge and sending international civilian police to Abkhazia and called on the government of Georgia and the Abkhaz de facto authorities to show restraint and to abide by the 1994 cease-fire agreement.

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 has fueled economic growth in Azerbaijan in recent years. 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. In August 2006, Saakashvili announced a major economic initiative he hoped would sharply reduce poverty and boost private enterprise.

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." 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. Russia hinders Azerbaijan's use of the Volga-Don Canal to reach world shipping channels. Russia also requires Georgians to obtain visas for visits and, since late March 2006, has blocked imports of wine and mineral water, ostensibly on food safety grounds. Most seriously, Russia closed what Georgia regards as the official entry checkpoint to all traffic on July 8, 2006.

Democratization and Human Rights Problems

The non-governmental organization Human Rights Watch (HRW) in its annual report covering 2005 judged that the Armenian government had failed to improve its human rights record during the year. It alleged that torture and ill-treatment in police custody remained widespread. The government made little progress in combating corruption. HRW reported that torture and excessive use of force by Azerbaijani security forces also were widespread, and that Azerbaijani authorities had not taken adequate measures to prosecute personnel committing such abuses. There continued to be convictions of those widely considered to be political prisoners, and the

government pressured independent media by limiting their access to printing and distribution facilities and by imposing fines for alleged defamation. In Georgia, human rights abuses continued in many areas, according to HRW. Although there was a reduction in reports in the capital, Tbilisi, of torture while in detention, torture by police and security forces appeared to remain widespread outside Tbilisi.¹⁶

Armenia. In a February 2003 presidential election, none of the nine candidates 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. OSCE and PACE observers 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 May 25, 2003, legislative election, 6 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). Prime Minister Andranik Margaryan's Republican Party won about 25% of the votes, the opposition Justice bloc (led by Demirchyan) won 14%, the pro-government Land of Laws Party won 12%, the pro-government Armenian Revolutionary Federation (ARF) won 10%, the opposition National Unity Movement won 10%, and the pro-government United Labor Party won 5%. The OSCE said that the election was "less flawed than the recent presidential poll, but still fell short of international standards." Proposed constitutional changes also were voted on but were not approved. A coalition government was formed by the Republican, Land of Laws, and ARF parties.¹⁷

New constitutional changes were drawn up for a planned November 27, 2005, popular referendum. The Venice Commission of the Council of Europe (COE) in July 2005 stated that these proposed changes would provide a "good basis for ensuring ... respect for human rights, democracy and the rule of law, and would pave the way to further European integration." Armenian officials announced that the constitutional referendum had been approved by 93.2% of 1.5 million voters, with a 65.4% turnout. A small delegation of monitors from the Parliamentary Assembly of the Council of Europe (PACE) reported observing ballot-box stuffing and few voters. Opposition parties, which boycotted the vote, alleged that the low observed turnout placed into question whether the required one-third of the electorate had actually voted.¹⁸

Azerbaijan. Ailing long-time ruler Heydar Aliyev withdrew from a scheduled October 15, 2003, presidential election in favor of his son, Ilkham Aliyev, who handily beat 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

¹⁶ Human Rights Watch. *World Report 2006*, January 2006.

¹⁷ OSCE. Office of Democratic Institutions and Human Rights (ODIHR). *Final Report on the Presidential Election in Armenia*, April 28, 2003; *Final Report on the Parliamentary Elections in Armenia*, July 31, 2003.

¹⁸ PACE. *Constitutional Referendum in Armenia: General Compliance Marred by Incidents of Serious Abuse*, November 28, 2005.

disappointment” with “serious deficiencies” in the election and “extreme concern” about post-election violence and “politically-motivated arrests.”¹⁹

Changes to the election law, some in line with proposals from the Venice Commission, were approved by the legislature in June 2005, including those making it easier for people to become candidates for a planned November 6, 2005, legislative election. However, the deputies rejected some of the most significant proposals, including a more equitable representation of political interests on electoral commissions. PACE emissaries visiting Azerbaijan in July raised concerns that myriad electoral officials accused of abuses in the 2000 legislative race remained in place. In May and October 2005, Aliyev ordered officials to abide by election law, and authorities permitted some opposition rallies. The October decree also led legislators to approve marking hands and permit outside-funded NGOs to monitor the election, as advocated by PACE. After the election, the U.S. State Department issued a statement praising democratization progress, but urging the government to address some electoral irregularities.²⁰ Repeat elections were scheduled for May 2006 in ten constituencies where alleged irregularities took place. Many oppositionists refused to run in what they claimed would be another sham election. According to OSCE election monitors, the repeat race appeared to be an improvement over the November election, but irregularities needed to be addressed, including the composition of electoral commissions and interference by local officials in campaigns.²¹

Meeting with visiting President Aliyev in late April 2006, President Bush hailed the “alliance” between the two countries and Azerbaijan’s “understand[ing] that democracy is the wave of the future.” At a conference before the summit, Aliyev asserted that he had been democratically elected, that “we have all the major freedoms,” and that his jails hold no political prisoners. After the U.S. visit, the Azerbaijani foreign minister stated that it marked Azerbaijan’s emerging role as the major power in the South Caucasus region.

Some human rights and other observers criticized the summit as providing undue U.S. support to a nondemocratic leader.²² Answering this criticism, Deputy Assistant Secretary of State Bryza stated in June 2006 that “just because Azerbaijan hasn’t gone as far as we would like on democracy doesn’t mean we’re going to

¹⁹ U.S. Department of State. *Press Statement: Presidential Election in Azerbaijan*, October 21, 2003.

²⁰ U.S. Department of State. *Press Statement: Azerbaijan Parliamentary Elections*, November 7, 2005. See also CRS Report RS22340, *Azerbaijan’s Legislative Election*, by Jim Nichol.

²¹ OSCE/ODIHR Mission. *Press Release: Partial Repeat Parliamentary Elections in Azerbaijan Underscore Continuing Need for Electoral Reform*, May 15, 2006; Alman Mir Ismail, *The Changing Nature of Azerbaijani Elections*, *Central Asia - Caucasus Analyst*, May 17, 2006.

²² The White House. Office of the Press Secretary. *President Bush Welcomes President Aliyev of Azerbaijan to the White House*, April 28, 2006; *OSIC*, May 2, 2006, Doc. No. CEP-950092; Council on Foreign Relations. *A Conversation with Ilkham Aliyev*, April 26, 2006.

ignore our energy interests or our military interests. That's not to say that our energy interests or our military interests or our counter-terrorism interests are driving us to ignore democracy.... We have to pursue a balance."²³

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, mostly pro-regime candidates were declared winners. Demonstrators launched a peaceful "rose revolution" that led to Shevardnadze's resignation on November 23. Russia and the United States appeared to cooperate during the crisis to urge Georgians to abjure violence.

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 bringing Georgia closer to meeting democratic electoral standards. The legislature, headed by UD co-leader Nino Burjanadze, approved constitutional amendments in February 2004 that created the post of prime minister and confirmed UD co-leader Zurab Zhvania for the post. After Zhvania's death in early 2005, his colleague Zurab Noghaideli replaced him.²⁴ Legislative elections were held on March 28, 2004 involving 150 party list seats (winners of district seats in November retained them). NM and BD ran on a joint list and captured 67.2% of 1.53 million votes, giving the bloc a majority of seats, seemingly ensuring firm legislative support for Saakashvili's policies. The OSCE judged the election as the most democratic since Georgia's independence.

President Bush visited Georgia on May 9-10, 2005, and praised its "rose revolution" for "inspiring democratic reformers" and freedom "from the Black Sea to the Caspian and to the Persian Gulf and beyond." President Saakashvili hailed the Bush visit as marking "final confirmation that Georgia is an independent country whose borders and territory are inviolable" 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.²⁵

Four officials in the Interior Ministry were sentenced in early July 2006 to 7-8 years in prison on charges of murdering a young Tbilisi banker in January. Georgian opposition politicians and others unsuccessfully called for Saakashvili to fire Interior Minister Vano Merabishvili and bring other alleged perpetrators to justice. After the verdict, the Minister for Separatist Conflicts, Georgy Khaindrava, joined this call. The murder contributed to a legislative boycott by opposition deputies and fueled widescale public protests. Khaindrava was not named to a new government formed in late July.

²³ RFE/RL, June 23, 2006.

²⁴ For background, see CRS Report RS21685, *Coup in Georgia [Republic]: Recent Developments and Implications*, by Jim Nichol.

²⁵ The White House. Office of the Press Secretary. *President and President Saakashvili Discuss NATO, Democracy*, May 10, 2005. See also President Saakashvili's remarks in *OSIC*, May 4, 2005, Doc. No. CEP-26020.

Some observers suggested that public discontent over the case might contribute to gains for opposition parties in 69 local/city council elections scheduled for October 5, 2006, but National Movement candidates won a majority of seats. According to OSCE and COE election observers, the contests generally respected fundamental freedoms, but the use of administrative resources appeared to be a problem. They praised the election as marking a new phase of democratization, because the city councils are empowered to elect mayors who had been previously appointed by the president (the reforms fall short of direct elections of mayors).²⁶

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, several developments since 2003 may have altered this assessment, including the “rose revolution” in Georgia, NATO’s increased ties with Armenia and Georgia, the completion of the Baku-Tbilisi-Ceyhan oil pipeline (and construction on an associated gas pipeline), Russia’s ongoing concerns about security in its North Caucasus regions (including Chechnya), and Russia’s agreement to close its remaining military bases in Georgia.

Recently, Russia has appeared to place its highest priority on exercising influence in the region in the economic sphere (particularly energy) and slightly less priority on influence in the military-strategic and domestic political spheres. 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 has quashed separatism in its North Caucasus areas while seemingly backing it in the South Caucasus. It is the main source of security and economic support for separatist Abkhazia and South Ossetia.²⁷

The South Caucasian states have responded in various ways to Russian influence. Armenia has close security and economic ties with Russia, given its unresolved NK conflict and grievances against Turkey. Georgia has attempted to eradicate Russia’s military presence and support to separatists. Azerbaijan has been concerned about Russia’s ties with Armenia.

NATO’s September 21, 2006, approval of an “Intensified Dialogue” with Georgia on reforms needed that might lead to membership appeared to contribute to heightened concerns in Russia about NATO enlargement and an increased U.S.

²⁶ OSCE. Office for Democratic Institutions and Human Rights. *Press Release*, October 6, 2006.

²⁷ “Separatist Abkhazia a Paradise for Russian Tourists,” *Agence France Presse*, July 19 2006; “Breakaway Region’s Fate in Limbo as Tbilisi and Moscow Tussle for Control,” *Agence France Presse*, July 19 2006.

presence in the South Caucasus. Russia's foreign and defense ministers harshly criticized the NATO decision in terms indicating that they viewed such ties as a loss of Russian influence. Russia has implemented widespread punitive trade and other economic sanctions against Georgia in 2006 as relations have worsened.

Caspian Energy Resources. Russia has tried to play a major role in future oil production 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 early 2004, however, a Russian official stated that Putin wanted to ensure that the greatest volume of Caspian energy flowed through Russia.²⁸ Armenia and Georgia are heavily reliant on Russian gas supplies, and Azerbaijan plans to continue to import some Russian gas until its own gas fields are developed further. In early 2006, Russia charged all three states much more for gas (see also below, *Energy Resources*).

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 in Armenia has been estimated at about 3,500. Armenia has argued that its Russian bases provide for regional stability by protecting it from attack. More than 100,000 Russian troops also are stationed nearby in the North Caucasus.²⁹ 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 there.)

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 its northern Pankisi Gorge 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 Gorge and

²⁸ The White House. Office of the Press Secretary. *Joint Statement by President George W. Bush and President Vladimir V. Putin on the New U.S.-Russian Energy Dialogue*, May 24, 2005. For the statement by Viktor Kalyuzhny, Putin's Special Envoy to the Talks on the Legal Status of the Caspian Sea, see *OSIC*, April 6, 2004, Doc. No. CEP-17.

²⁹ *The Military Balance 2005-2006*. London: International Institute of Strategic Studies, 2005.

international terrorists that Russia alleged had transited Georgia to fight in Chechnya. In April 2006, Azerbaijan convicted 16 alleged terrorists who reportedly had received training from Al Qaeda operatives in the Pankisi Gorge.³⁰

The Georgian legislature in October 2005 called on the government to certify by July 2006 that the activities undertaken by Russian “peacekeepers” in Georgia’s breakaway regions of Abkhazia and South Ossetia were contributing to peace settlements. If the government was unable to make these certifications as stipulated, then it must request that the “peacekeepers” leave, according to the resolution. A Georgian National Military Strategy document released in November 2005 was blunt, terming Russian “peacekeepers” and bases security threats.

In February 2006 Georgia’s legislature approved a resolution calling for the president to revoke the 1992 agreement providing for Russian “peacekeeping” in South Ossetia. The resolution accused Russia of aiming to annex the region and urged greater international involvement in peacekeeping and a peace settlement. The U.S. State Department has urged Georgia not to abandon the existing peace process. Appearing to fuel Georgia’s concerns, Russian President Vladimir Putin rhetorically asked in January 2006 why Russia should not recognize the independence of Georgia’s breakaway Abkhazia and South Ossetia regions, if some countries recognized Serbia’s Kosovo region.³¹ More recently, Russia’s Foreign Ministry spokesman Mikhail Kamynin stated in mid-2006 that “we respect the principal of territorial integrity. But when this integrity is applied to Georgia, it is more a possible state than a political-legal reality.” He argued that South Ossetia was calling for self-determination, so that Georgia’s “political-legal reality” was in limbo pending the outcome of settlement talks between the region and Georgia.³²

Since the Georgian government did not certify that Russian “peacekeepers” contributed to peace settlements in Abkhazia and South Ossetia, the Georgian legislature in mid-July 2006 approved a resolution calling on the government to replace the Russian “peacekeepers” with an international police contingent. No deadline was specified. Following the passage of the resolution, Saakashvili directed the government to explore diplomatic negotiations with Russia to implement it. Russia’s Foreign Minister Sergey Lavrov denounced the resolution as war-mongering and warned Georgia that Russian “peacekeepers” would protect “our citizens” in South Ossetia and Abkhazia from attack by Georgia (Russia has granted citizenship to the majority of Abkhazians and South Ossetians).

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

³⁰ For background, see CRS Report RS21319, *Georgia’s Pankisi Gorge*, by Jim Nichol.

³¹ *OSIC*, January 31, 2006, Doc. No. CEP-27075.

³² “Georgian Integrity More Possible Than Real: Russia,” *Agence France Presse*, June 1, 2006.

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 objects to this stance. Georgia’s Deputy Defense Minister stated in September 2006 that there were about 3,000 Russian troops at facilities in Georgia.³³

The Georgian legislature in March 2005 passed a resolution calling for Russia to agree by mid-May on closing the bases or face various restrictions on base operations. This pressure, and perhaps the U.S. presidential visit (see above), spurred Russia to agree with Georgia in late May on setting the end of 2008 as the deadline for closing the bases. Putin explained that his military General Staff had assured him that the bases were Cold War-era relics of no strategic importance to Russia.³⁴ The two countries agreed that the base at Akhalkalaki would be closed by late 2007, and that Batumi would be closed during 2008. Some in Georgia have criticized a provision permitting some Russian materiel, personnel, and infrastructure to remain at Batumi as part of a prospective joint anti-terrorist center. The accord did not mention Gudauta. In early 2006, Georgian Defense Minister Irakli Okuashvili reportedly asserted that Gudauta remained a “fully functioning” Russian base. Russian and Abkhaz officials rejected this claim. In May 2006, Abkhazia hosted a visit by members of NATO’s Parliamentary Assembly, but the delegation reportedly was blocked from visiting the Gudauta base.³⁵

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 hopes to benefit from the construction of new pipelines delivering oil and gas westward from the Caspian Sea.

³³ *OSIC*, September 20, 2006, Doc. No. CEP-950087.

³⁴ *OSIC*, May 24, 2005, Doc. No. CEP-378001.

³⁵ *OSIC*, March 31, 2006, Doc. No. CEP-950202; April 21, 2006, Doc. No. CEP-20003; May 2, 2006, Doc. No. CEP-950141; May 4, 2006, Doc. No. CEP-20004; May 12, 2006, Doc. No. CEP-27137.

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. 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. Some thawing in Azerbaijani-Iranian relations has occurred in 2005-2006 with the long-delayed opening of an Azerbaijani consulate in Tabriz and various leadership summits. U.S. policy aims to contain Iran's threats to U.S. interests.³⁶

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 neighbors (Iran and Russia). The South Caucasian and Central Asian states are concerned about ongoing terrorist threats and drug trafficking from Afghanistan. Central Asia's increasing ties with the South Caucasus 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 five Eurasian states that each have received more than \$1 billion in U.S. aid FY1992-FY2005 (the others are Russia, Ukraine, and Kazakhstan, which have received sizeable CTR funds). See **Table 1**. U.S. assistance to the region 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 perspective, cumulative EU aid to the region over 1992-2004 has totaled about \$1.4 billion. In 2004 the EU invited the South Caucasus

³⁶ See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

states to participate in a “Wider Europe” program of enhanced aid, trade, and political ties.

In January 2004, Congress authorized a major new global assistance program, the Millennium Challenge Account (Section D of P.L. 108-199). A newly established Millennium Challenge Corporation (MCC) approved a five-year, \$295.3 million agreement (termed a “compact”) with Georgia in August 2005 to improve a road from Javakheti to Samtskhe, repair a gas pipeline, create a small business investment fund, set up agricultural grants, and improve municipal and rural water supply, sanitation, irrigation, roads, and solid waste treatment. Reportedly, the MCC plans to spend \$51.7 million in Georgia in 2006. In December 2005, the MCC approved a five-year, \$235.65 million compact with Armenia — to bolster rural agriculture through road-building and irrigation and marketing projects — but raised concerns about the November 2005 constitutional referendum. Following assurances by Foreign Minister Oskanyan that Armenia would address democratization shortfalls, the MCC indicated that the compact would be signed.³⁷

Foreign Operations Appropriations for FY2006 was signed into law November 14, 2005 (H.R. 3057; P.L. 109-102). It calls for \$75 million in FREEDOM Support Act aid to Armenia (\$20 million above the request), \$35 million for Azerbaijan, and \$67 million for Georgia. It calls for \$12 million in Foreign Military Financing for Georgia and \$5 million each for Armenia and Azerbaijan. It also supports \$750,000 in International Military Education and Training aid each for Armenia and Azerbaijan. The conferees (H.Rept. 109-265) agree that at least \$3 million be provided to address ongoing humanitarian needs in Nagorno-Karabakh.

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 in March 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

³⁷ Millennium Challenge Corporation. *Ambassador Danilovich’s letter to Armenian President Robert Kocharyan*, December 16, 2005; *Press Release: Millennium Challenge Corporation Board Approves Armenia Compact but Expresses Concern Regarding Irregularities in the November Referendum*, December 19, 2005; and *Ambassador Danilovich’s letter to Armenian President Robert Kocharyan*, January 18, 2006, [<http://www.mca.gov>]. See also Armenian Foreign Ministry. *Oskanyan Thanks MCC for Millennium Compact*, January 12, 2006, [<http://www.armeniaforeignministry.com>].

... This region is a geographical pivot point in the spread of democracy and free market economies to the states of Central and Southwest Asia.”³⁸

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.³⁹ The 16-month SSOP was launched in early 2005 as a follow-on to the Georgia Train and Equip Program (GTEP).⁴⁰ Funded at \$60.5 million, SSOP provided training for four battalions (2,000 troops), in part to support U.S.-led coalition operations. In July 2006, the United States announced that the SSOP would be extended another year and funded at \$30 million.⁴¹ The Clearinghouse aims to facilitate cooperation by sharing data on security assistance 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 Azerbaijan and Kazakhstan. The Hydrocarbons initiative provides maritime security and crisis response and consequence management aid to help the regional states protect their pipelines and other energy transport to the West. The United States acknowledged in late 2005 that it had supplied two maritime surveillance radars to help detect and direct interdiction of illicit weapons of mass destruction and other trafficking in the Caspian Sea.⁴² Gen. Charles Wald, deputy head of EUCOM, in November 2004 suggested that the Administration was exploring the establishment of “cooperative security locations” (CSLs) — sites without a full-time U.S. military presence that are used for refueling and short-duration deployments — in Azerbaijan or Georgia.⁴³

All three regional states joined NATO’s Partnership for Peace (PFP) in 1994 and in 2004-2005 agreed with NATO to participate in Individual Partnership Action Plans (IPAPs) for military and civil-military reforms. On September 21, 2006, NATO approved Georgia’s application for “Intensified Dialogue” with the alliance, ostensibly because of Georgia’s military reform progress, although NATO also emphasized that much more reform work needed to be done before Georgia might

³⁸ U.S. Senate. Committee on Armed Services. *Testimony by Gen. James Jones*, March 1, 2005. See also CRS Report RL30679, *Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests*, by Jim Nichol.

³⁹ Senate Armed Services Committee. Statement of General James L. Jones, USMC, Commander, United States European Command, March 1, 2005.

⁴⁰ U.S. officials explained that the \$64 million GTEP carried out in 2002-2004 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.

⁴¹ U.S. Allocates \$30 mln for SSOP Army Training Program, *Civil Georgia*, July 17, 2006.

⁴² “Two Radar Stations Become Operational in Azerbaijan under the U.S.-Funded Caspian Guard Initiative,” *International Export Control Observer*, Center for Non-proliferation Studies, Monterey Institute of International Studies, November 2005.

⁴³ Vince Crawley, *Army Times*, November 22, 2004.

be considered for NATO membership. 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 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 Secretary General 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). Under 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. Since the waiver provision to Section 907 was enacted, some Members have maintained that the Armenian-Azerbaijani military balance is preserved by providing equal amounts (parity) in IMET and FMF assistance to each country. In FY2005, the conference report (H.Rept. 108-792) on H.R. 4818 (P.L. 108-447; Consolidated Appropriations) 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 similar congressional calls, the Administration's FY2006 foreign aid budget requested equal amounts of FMF as well as IMET for each country. However, the FY2007 budget request called for more such aid for Azerbaijan than for Armenia. The House Foreign Operations Subcommittee and the Appropriations Committee in late May 2006 approved equal amounts of \$3.5 million in FMF and \$790,000 in IMET for Armenia and Azerbaijan.

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 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.

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.⁴⁴ U.S. policy goals regarding energy resources in Central Asia and the South Caucasus have included supporting the sovereignty of the states, their ties to the West, and 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 2001 energy policy report.⁴⁵ It recommended that the President direct U.S. agencies to support building the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, expedite use of the pipeline by oil firms operating in Kazakhstan, and support constructing a gas pipeline to export Azerbaijani gas. Since September 11, 2001, the Administration has emphasized U.S. vulnerability to possible energy supply disruptions and its commitment to Caspian energy development. Critics argue that oil from the Caspian region will amount to less than 4% of world supplies. Senator John Kerry in late July 2005 criticized H.R. 6, the Energy Policy Act (P.L. 109-58), by arguing that it did not address the U.S. over-dependency on foreign oil, which was necessitating U.S. training of security forces "to guard oil facilities around the Caspian Sea."⁴⁶

The United States 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 (which includes U.S. firms Conoco-Phillips, Amerada Hess, and Chevron) was formed to construct, own, and operate the oil pipeline. Azerbaijani media reported at the end of May 2006 that the first tanker began on-loading oil at Ceyhan. A gas pipeline to Turkey (termed the South Caucasus Pipeline or SCP) is being built by the Shah Deniz and SCP Partners (which includes Iran, with construction work by U.S. firm McDermott). Georgia will receive some of this gas, reducing its reliance on Russian gas. Some in Armenia object to lack of access to these pipelines. In May 2006, Armenia agreed to relinquish various energy assets to Russian firms (including a gas pipeline to Iran) as partial payment for a price increase in Russian gas. Some critics have alleged that Russia now has virtual control over Armenia's energy supplies.

⁴⁴ U.S. Department of Energy. Energy Information Administration. *Azerbaijan Country Analysis Brief*, June 2005.

⁴⁵ The White House. The National Energy Policy Development Group. *Reliable, Affordable, and Environmentally Sound Energy for America's Future*, May 16, 2001.

⁴⁶ *Congressional Record*, July 28, 2005, p. S9263.

109th Congress Legislation

H.Con.Res. 195 (Schiff)

Commemorating the Armenian Genocide of 1915-1923. Introduced June 29, 2005. The Committee on International Relations on September 15, 2005, ordered it to be reported.

H.R. 3361 (Knollenberg)/S. 2461 (Santorum)

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. H.R. 3361 was introduced on July 20, 2005. S. 2461 was introduced on March 28, 2006.

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. 5122 (Hunter)

National Defense Reauthorization Act for FY2007. Sec. 1022 restates and revises Defense Department authority to provide support for counter-drug activities of certain foreign governments. Adds Azerbaijan as eligible for assistance, including possible nonlethal equipment, boats, aircraft, and vehicles. Amount obligated and expended is not to exceed \$40 million in FY2006 or \$60 million in FY2007 or FY2008. Sec. 1025 calls for the Defense Secretary to submit a report by the end of 2006 updating the interagency counter-narcotics plan for Afghanistan and South and Central Asia (and including Azerbaijan). Introduced on April 6, 2006. Passed House on May 11, 2006. The Senate struck all after the Enacting Clause and substituted the language of S. 2766. Adds Armenia and Azerbaijan as eligible for counter-drug support. Amount is not to exceed \$40 million in FY2006 or \$80 million in FY2007 or FY2008. Passed Senate on June 22, 2006; conferees appointed.

H.R. 5522 (Kolbe)

Foreign Operations, Export Financing, and Related Programs Appropriations Bill, 2007. Introduced on June 5, 2006. Passed the House on June 9, 2006. Reported in Senate with an amendment in the nature of a substitute on July 10, 2006. H.Rept. 109-486 recommends \$62 million in FREEDOM Support Act aid for Armenia, \$29 million for Azerbaijan, and \$55 million for Georgia. Also states that committee members are encouraged by democratization efforts in Azerbaijan and appreciate the country's support for the global war on terror. Recommends equal amounts of \$790,000 for IMET and \$3.5 million for FMF for Armenia and Azerbaijan. S.Rept. 109-277 recommends \$34.201 million in FREEDOM Support Act aid for Armenia and \$50.743 million for Georgia. Recommends equal amounts of \$790,000 for IMET and \$3.5 million for FMF for Armenia and Azerbaijan. Among other programs, recommends for Armenia \$5.839 million in Child Survival and Maternal Health Program Funds (CSHPF), \$9.96 million in Democracy Fund (DF) aid, \$2.04 million for Non-proliferation, Anti-terrorism, De-mining, and Related Programs (NADR), and \$1.814 million for the Peace Corps (total is \$58.144 million). Recommends \$5 million from FREEDOM Support Act regional account

for Nagorno Karabakh. Recommends for Azerbaijan \$1.703 million in CSHPF and \$7.134 million in DF. Recommends for Georgia \$4.803 million in CSHPF, \$559,000 in Development Assistance, \$8.895 million in DF, \$4.664 million for NADR, \$1.235 million for IMET, \$10 million for FMF, and \$1.944 million for the Peace Corps (total is \$82.843 million). Encourages Georgia to continue to implement economic and legal reforms, and expresses appreciation for its contributions to the global war on terrorism.

H.Res. 316 (Radanovich)/S.Res. 320 (Ensign)

Calling the President to ensure that the foreign policy of the United States take into account issues of human rights, ethnic cleansing, and genocide documented in the United States record relating to the Armenian Genocide. H.Res. 316 was introduced on June 14, 2005. The Committee on International Relations on September 15, 2005, ordered it to be reported. S.Res. 320 was introduced on November 18, 2005.

H.Res. 326 (Gallegly)/S.Res. 226 (Biden)/S.Res. 260 (Biden)

Calling for free and fair legislative elections in Azerbaijan. H.Res. 326 was introduced June 16, 2005, and passed on July 20, 2005. S.Res. 226 was introduced on July 29, 2005. A similar bill, S.Res. 260, was introduced September 29, 2005, and was approved in the Senate on October 20, 2005.

S. 2749 (Brownback)

To update the Silk Road Strategy Act of 1999 to modify targeting of assistance in recognition of political and economic changes in the Central Asian and South Caucasian countries since 1999. Introduced May 4, 2006. Designates Afghanistan as a Silk Road country. States that supporting democracy, mineral and other property rights, the rule of law, and U.S. trade with energy-rich Kazakhstan, Azerbaijan, and Turkmenistan, and with energy-transporting states, will strengthen U.S. energy security by enhancing access to diversified energy resources. Urges close U.S. relations with the Silk Road states to facilitate maintaining military bases near Afghanistan and Iraq. Recognizing that China and Russia have acted at odds with U.S. security interests, such as by curbing the U.S. military presence in Uzbekistan, calls for U.S. observer status in the Shanghai Cooperation Organization (SCO) in order to promote stability and security. Calls for providing greater access to Export-Import Bank loans, promoting the development of trans-Caspian oil and gas pipelines, and supporting the building of a rail link in Kazakhstan that will facilitate the shipment of oil and other goods to Europe. Calls for the Export-Import Bank and OPIC to help set up a Caspian Bank of Reconstruction and Development. Urges consideration for setting up a Silk Road Advisory Board (consisting of experts in agriculture, democratization, banking, finance, legal reform, infrastructure planning, and oil and gas extraction and transport), a private sector energy consultancy (to coordinate business projects and promote production, transportation, and refining investments), and an annual meeting of Silk Road aid sponsors and beneficiaries to be held in conjunction with the Energy Security Forum of the U.N. Economic Council of Europe.

S. 4014 (Lugar)

The NATO Freedom Consolidation Act of 2006. Introduced September 29, 2006. Calls for the timely admission of Georgia and others to NATO to promote

security and stability in Europe. Designates Georgia and others as eligible under the NATO Participation Act of 1994 to receive assistance in the transition to NATO membership, including support for joint planning, training, and military exercises with NATO forces, for greater interoperability of military equipment, air defense systems, and command, control, and communications systems; and for conformity of military doctrine. Authorizes \$10 million on a grant basis for such aid to Georgia.

S.Res. 69 (Lugar)

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 commitments to close or otherwise resolve the status of its military bases in Georgia and Moldova; maintain strong diplomatic pressure 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)

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

S.Res. 344 (McCain)

Expressing Support for the Government of Georgia's South Ossetian Peace Plan. Calls for all Members of the OSCE to respect Georgia's territorial integrity and urges the U.S. government to play a more significant role in facilitating a peace settlement. Introduced and approved on December 21, 2005.

Table 1. U.S. FY1992-FY2005 and FY2005 Budgeted Foreign Assistance, FY2006 Estimated Aid, and the FY2007 Request
(millions of dollars)

| South Caucasus Country | FY1992-FY2005 Budgeted Aid ^a | FY2005 Budgeted Aid ^a | FY2006 Estimate ^b | FY2007 Request ^b |
|------------------------|---|----------------------------------|------------------------------|-----------------------------|
| Armenia | 1,581.09 | 91.01 | 81.7 | 58.14 |
| Azerbaijan | 588.72 | 79.15 | 47.94 | 40.12 |
| Georgia | 1,611.17 | 126.87 | 86.01 | 75.84 |
| Regional | 38.73 | 2.03 | — | — |
| Total | 3,819.71 | 299.06 | 215.65 | 174.1 |
| Percent | 13.6 | 15 | 36 | 33 |

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: FY2005 Annual Report*; State Department, *Congressional Budget Justification for Foreign Operations, FY2007*.

a. FREEDOM Support Act and Agency budgets.

b. FREEDOM Support Act and other Function 150 funds. Does not include Defense or Energy Department funding, funding for exchanges, or Millennium Challenge Corporation programs in Armenia and Georgia.

Figure 1. Map of the Region



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

crsphgw