

CRS Report for Congress

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

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Summary

The United States recognized the independence of Armenia, Azerbaijan, and Georgia when the former Soviet Union broke up at the end of 1991. 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. In the aftermath of the September 11, 2001, terrorist attacks on the United States, the Administration appealed for a national security waiver for Section 907, in consideration of Azerbaijan'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 March 2007. 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 troops participate in stabilization efforts in Afghanistan and Iraq, and Armenian and Georgian personnel serve in Iraq. Georgia has announced that it will soon send some troops to Afghanistan.

Key issues in the 110th Congress regarding the South Caucasus are likely to focus on bolstering Georgia's democratization and security; Azerbaijan's energy development; and Armenia's independence and economic development. At the same time, concerns might include the status of democratization and human rights in Azerbaijan, the on-going Armenia-Azerbaijan conflict over the breakaway Nagorno Karabakh region, and threats posed to Georgia by ongoing separatism and Russian actions. Congress will likely scrutinize Armenia's and Georgia's reform progress as recipients of Millennium Challenge Account grants. Some Members of Congress believe that the United States should provide greater attention to the region's increasing role as an east-west trade and security corridor linking the Black Sea and Caspian Sea regions. 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. Others urge caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts.

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

Most Recent Developments

The Georgian Defense Minister announced on September 14, 2007, that in accordance with a U.S.-Georgia agreement that led Georgia to boost its troops in Iraq to 2,000 in July 2007, the number of troops would be reduced to 300 by mid-2008.

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 1991.¹

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).

¹ For background, see CRS Report RS20812, *Armenia Update*, by Carol Migdalovitz; CRS Report 97-522, *Azerbaijan: Recent Developments and U.S. Interests*, by Jim Nichol; and CRS Report 97-727, *Georgia: Recent Developments and U.S. Interests*, also by Jim Nichol.

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: 15.6 million, similar to Netherlands; Armenia: 2.98 m.; Azerbaijan: 7.96 m.; Georgia: 4.66 m. (*CIA World Factbook*, July 2006 est.). Over a million people from the region are migrant workers in Russia and elsewhere.

GDP: \$91.89 billion; Armenia: \$15.99 b.; Azerbaijan: \$58.1 b.; Georgia: \$17.8 b. (*World Factbook*, 2006 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 comes from legitimacy. And legitimacy requires democracy on the political side and prosperity on the economic side.”²

In addition, 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 eliminated this post and divided 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, and some argue that, since the European Union has recognized the region as part of its “neighborhood,” it rightfully should play a

² “U.S. Says Aliyev, Kocharyan Must Show ‘Political Will,’” *RFE/RL*, June 23, 2006. The three priorities were repeated in a joint statement issued after the 10th annual meeting of the U.S.-Azerbaijan Security Dialogue. U.S. Department of State. Office of the Spokesman, July 9, 2007.

major role. Some observers argue that the U.S. interest in democratization should not be subordinated to interests in energy and anti-terrorism.³

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 could lessen 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. 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 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 in March 2007.

Since late 2002, Azerbaijan has contributed troops for peacekeeping in Afghanistan. In May 2007, Azerbaijan’s Foreign Ministry announced that the country planned to double the number of troops (currently 22) it deploys to Afghanistan. Georgia contributed about 50 troops during Afghan elections in late 2004-early 2005. In March 2007, Georgian President Mikhail Saakashvili announced that Georgia intended to send 100 troops to support NATO in Afghanistan. Reportedly, they may be deployed in late 2007 or early 2008.

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

³ U.S. House of Representatives. Committee on Foreign Relations. Subcommittee on International Organizations, Human Rights and Oversight. *Ideals vs. Reality in Human Rights and U.S. Foreign Policy: The Cases of Azerbaijan, Cuba, and Egypt*, July 12, 2007; U.S. Commission on Security and Cooperation in Europe. *Energy and Democracy*, July 23, 2007.

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. Azerbaijan's troops serve under U.S. command and provide security in northern Iraq. Georgia boosted its deployment to 850 troops in July 2005. In March 2007, President Saakashvili announced that Georgia intended to boost its troop deployment up to 2,000. The new troops were fully deployed by September 2007. Georgian troops serve under U.S. command. Many have provided security in the "Green zone" in Baghdad and others in northern suburbs of Baghdad. Reportedly, the new troops will help patrol the border with Iran. With these new deployments, Georgia has the fourth-largest number of troops in Iraq, after the United States, the United Kingdom, and South Korea. Armenia began sending personnel to Iraq in January 2005, where 46 serve with the Polish contingent in non-combat roles.

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 since the Soviet collapse in 1991, 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 2006, there were still about 692,000 people considered refugees or displaced persons in Azerbaijan and

114,000 in Armenia.⁴ Armenia has granted citizenship and acted to permanently house most 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 World Factbook* estimates about 16%).⁵ 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. The late President 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.⁶ The assassination of Armenian political leaders in late 1999 set back the peace process.

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.⁷ 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."⁸

Since 2005, officials in both countries have reported negotiations on a fourth "hybrid" peace plan. 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 included the phased "redeployment of Armenian troops from Azerbaijani territories around NK, with special modalities for Kelbajar and Lachin districts

⁴ U.N. High Commissioner for Refugees. *2006 Global Trends: Refugees, Asylum-seekers, Returnees, Internally Displaced and Stateless Persons*, July 16, 2007. The NGO Amnesty International has raised concerns that refugees and displaced persons in Azerbaijan face prejudice and segregation. They are more likely to be unemployed and in poverty. *Azerbaijan: Displaced then Discriminated Against – the Plight of the Internally Displaced Population*, June 28, 2007.

⁵ International Crisis Group. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005; CIA World Factbook. *Azerbaijan*, online at [<https://www.cia.gov/cia/publications/factbook/geos/aj.html>].

⁶ Open Source Center, *Central Eurasia: Daily Report* (hereafter *CEDR*), February 27, 2001, Doc. No CEP-262.

⁷ *CEDR*, January 17, 2003, Doc. No. CEP-338.

⁸ *CEDR*, October 13, 2004, Doc. No. CEP-11.

(including a corridor between Armenia and NK); demilitarization of those territories; and a referendum or population vote (at a date and in a manner to be decided ...) to determine the final legal status of NK.” International peacekeepers also would be deployed in the conflict area.⁹

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.¹⁰

At a Minsk Group-sponsored meeting of the Armenian and Azerbaijani foreign ministers in Paris on October 24, 2006, Armenian Foreign Minister Oskanyan proposed that all occupied territories around NK (including Kelbajar and Lachin) could be returned if there was clarity on the plan for a referendum to be held in NK on its status. Until the referendum, an interim status for NK would be agreed upon. Although the referendum must deal with NK’s independence from Azerbaijan as one choice, he stated on October 26 that he considered an NK ultimately independent from Armenia as artificial and not viable. Instead, NK would be persuaded eventually to “fully integrate” with Armenia.¹¹ Aliyev reported on October 27, 2006, that at the Paris meeting Azerbaijan had proposed that NK have a high level of autonomy during the interim period before a referendum. He argued that NK should accept Azerbaijan’s guarantees of political autonomy overseen by international peacekeepers. Otherwise, he warned, Azerbaijan has the sovereign right, as the United Kingdom did in regard to the Falkland Islands, to “retake our territory.”¹² In May 2007, Aliyev reportedly stated that only after all seven occupied areas around NK had been returned in phases, and Azerbaijani displaced persons had returned to NK, could the question of NK’s status be determined (he ruled out the status of independence).¹³ The presidents of Azerbaijan and Armenia met on June 11, 2007, for talks reportedly lasting over three hours, but no breakthrough on settling the NK conflict was announced.

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

⁹ OSCE. *Statement by the Minsk Group Co-Chairs*, July 3, 2006.

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 CRS Interview, October 26, 2006. See also Fariz Ismailzade, *Eurasia Daily Monitor*, October 31, 2006.

¹² CRS Interview, October 27, 2006.

¹³ *CEDR*, May 4, 2007, Doc. No. CEP-950237.

Abkhazia have transformed the separatist conflicts into essentially Russia-Georgia disputes. Most residents of Abkhazia and South Ossetia reportedly have been granted Russian citizenship, and the separatist leaders have appeared to declare that the regions should be part of Russia.¹⁴ According to U.N. Secretary-General Ban Ki-moon, President Putin's threats that Russia might recognize Abkhazia and South Ossetia — if the international community recognizes Kosovo — have helped spur Georgia to set up pro-Georgian governments in Abkhazia's Kodori Gorge and in South Ossetia (see below) to complicate such recognition attempts.¹⁵ U.S. diplomacy generally has appeared to urge Georgia to work within existing peace settlement frameworks for Abkhazia and South Ossetia — which provide for Russian "peacekeepers" — while criticizing some Russian actions in the regions.

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

President Saakashvili increased pressure on South Ossetia in 2004 by tightening border controls, breaking up a large-scale smuggling operation in the region that allegedly involved Russian organized crime and corrupt Georgian officials. 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. 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.

President 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

¹⁴ Vladimir Socor, *Eurasia Insight*, November 20, 2006.

¹⁵ U.N. Security Council. *Report of the Secretary-General on the Situation in Abkhazia, Georgia*, S/2007/15, January 11, 2007.

[South Ossetians] are citizens of Russia.”¹⁶ 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 also envisaged benchmarks. The JCC in May 2006 agreed on economic reconstruction projects estimated to cost \$10 million, and the next month, the OSCE sponsored a donor’s conference that raised these funds. A Steering Committee composed by the sides to the conflict and donors met in October 2006 to discuss project implementation. In February 2007, the pro-Georgian alternative leadership (see below) called for participating in projects. In April 2007, Kokoiti praised Russia’s unilateral aid efforts and accused the Steering Committee of dallying.

In November 2006, a popular referendum was held in South Ossetia to reaffirm its “independence” from Georgia. The separatists reported that 95% of 55,000 registered voters turned out and that 99% approved the referendum. In a separate vote, 96% reelected Kokoiti. The OSCE and U.S. State Department declined to recognize these votes. In “alternative” voting among ethnic Georgians in South Ossetia (and those displaced from South Ossetia) and other South Ossetians, the pro-Georgian Dmitriy Sanakoyev was elected governor, and a referendum was approved supporting Georgia’s territorial integrity.

In March 2007, Saakashvili proposed another peace plan for South Ossetia that involved creating “transitional” administrative districts throughout the region — ostensibly under Sanakoyev’s authority — which would be represented by an emissary at JCC or alternative peace talks. Each side accused the other in mid-2007 of blockading water supplies in South Ossetia and other “provocations,” including failure to hold JCC meetings. In July 2007, Saakashvili decreed the establishment of a commission to work out South Ossetia’s “status” as a part of Georgia.

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-May 1994 on a framework for a political settlement and the return of refugees. A Quadripartite Commission (QC) was set up to discuss repatriation and Russian troops (acting as CIS “peacekeepers”) were deployed along the Inguri River dividing Abkhazia from the rest of Georgia. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians. In late 1997, the sides agreed to set up a Coordinating Council (CC) to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. The QC meets periodically and addresses grievances not considered by the CC. Abkhazia had resisted holding CC meetings since 2001. The two sides finally held some CC meetings in mid-2006 but rising tensions led to the suspension of the meetings in August.

¹⁶ *CEDR*, October 7, 2005, Doc. No. CEP-15001. *CEDR*, December 12, 2005, Doc. No. CEP-27204. South Ossetians who were citizens of Russia voted in the 2003 Russian presidential election, and a poster in South Ossetia proclaims that “Putin is our president.”

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 in 2005 (members include Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Moldova, Poland, Romania, and Sweden) 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.

The Kodori Gorge. In July 2006, a warlord in the Kodori Gorge area of northern 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 military troops have left the Gorge, leaving only police, but Abkhazia asserts that many troops are still present, in violation of the cease-fire agreement.

All Georgia-Abkhazia talks were suspended in October 2006. Abkhazia has called for Georgia to remove the government representatives and alleged military forces. In October 2006, the UNSC criticized Georgia for introducing military forces into the Kodori Gorge 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.¹⁷ Some Georgian officials viewed the resolution as negating their calls for a wider international composition of the peacekeeping forces. In January and April 2007, the U.N. Secretary General reported that Georgia appeared not to have heavy military weaponry in the Gorge. In June 2007, however, he reported that UNOMIG had seen what appeared to be a Georgian military truck in the upper Kodori Gorge. He also reported that UNOMIG had seen several Georgian military vehicles and personnel in the border area near the town of Zugdidi.¹⁸ The Friends of Georgia hosted a meeting in Germany in late June 2007 that urged the sides to abide by the existing cease-fire agreement and to renew talks.

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,

¹⁷ U.N. Security Council. *Resolution 1716 (2006), Adopted by the Security Council at Its 5549th Meeting*, October 13, 2006.

¹⁸ U.N. Secretary General. *Report of the Secretary-General on the Situation in Abkhazia*, S/2007/15, January 11, 2007; S/2007/182, April 3, 2007; S/2007/439, July 18, 2007. U.N. Security Council. *Resolution 1752 (2007), Adopted by the Security Council at Its 5661st Meeting*, April 13, 2007. This resolution extended UNOMIG’s mandate to October 2007.

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 have provided major support for the remaining populations.¹⁹

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.²⁰ 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. Since 2006, Russia has severely restricted agricultural trade and land, air, and sea links with Georgia. Russia has at times cut off gas supplies to Georgia. Georgia severely restricts traffic from South Ossetia. Russia is building a 110-mile gas pipeline to South Ossetia to end the region's dependence on gas transiting from other Georgian territory. Russia hinders Azerbaijan's use of the Volga-Don Canal to reach world shipping channels.

Democratization Problems and Progress

The World Bank, in its annual report assessing the quality of democratic governance in 212 countries during 2006, ranked Armenia as perhaps among the better-performing one-half of the countries in terms of government effectiveness and regulatory quality.²¹ On four other indicators — accountability,²² stability, rule of

¹⁹ A. V. Korobkov, "Migration Trends in Central Eurasia," *Communist and Post-Communist Studies*, No. 2, 2007, pp. 169-89.

²⁰ Armenia opposes the construction or revamping of a section of railway from Kars, Turkey, to Tbilisi that would bypass Armenia, arguing that an existing section of railway from Kars that transits Armenia into Georgia could be returned to service "in a week." Azerbaijan and Turkey oppose a transit route through Armenia, despite Armenia's offers not to use the railway for its own goods or to impose transit tariffs. In late 2006, however, Armenia and Russia reportedly had discussed possible participation by Russian firms in repairing and operating railways within the country. In April 2007, a ferry between Russia's Black Sea port at Kavkaz and Georgia's Poti seaport resumed carrying rail cars, which then travel to Armenia. Some observers claim that one rationale for a railway from Baku to Kars — that it would fall outside Russian control — would be compromised if the Armenian section was controlled by Russia.

²¹ Government effectiveness refers to "the quality of public services, [and] the quality of the (continued...)"

law, and anti-corruption — Armenia ranked slightly below world norms but had not regressed in recent years, except perhaps on accountability. Georgia ranked slightly below Armenia on all indicators except accountability and anti-corruption, and seems to have made recent progress on all indicators but stability, according to the World Bank. Azerbaijan was deemed to rank below the other two regional states on all indicators, but seems to have made some progress in regulatory quality.

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. Observers from the OSCE and the Parliamentary Assembly of the Council of Europe (PACE) 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.²³

In November 2005, constitutional changes were approved by 93.2% of 1.5 million voters, with a 65.4% turnout. A small delegation of monitors from PACE reported observing ballot-box stuffing and few voters. Opposition parties boycotted the vote.²⁴ Before the vote, the Venice Commission of the Council of Europe (COE) had suggested that the 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,” if implemented. In January 2007, PACE praised progress in passing legislation implementing the constitutional reforms and urged Armenia to hold free elections.

A legislative election was held on May 12, 2007, and five parties cleared a 5% vote hurdle to win 90 seats that were allocated through party list voting. One other party won 1 of the 41 seats subject to constituency voting. The party that had won the largest number of seats in the 2003 election — the Republican Party of Armenia — won a near majority (64 of 131 seats) in 2007. Two opposition parties won 16 seats. According to the preliminary conclusions made by observers from the OSCE, COE, and the EU, the legislative elections “demonstrated improvement and were conducted largely in accordance with ... international standards for democratic elections.” However, they raised some concerns over pro-government party domination of electoral commissions, the low number of candidates in constituency races, and inaccurate campaign finance disclosures. In follow-on assessments, the

²¹ (...continued)

civil service.” Regulatory quality refers to policies that promote a market economy. The World Bank. *Governance Matters 2007: Worldwide Governance Indicators, 1996-2006*, July 10, 2007.

²² Accountability refers to “the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.” *Governance Matters 2007*, July 10, 2007.

²³ OSCE. Office of Democratic Institutions and Human Rights (ODIHR). *Final Report on the Presidential Election in Armenia*, April 28, 2003.

²⁴ PACE. *Constitutional Referendum in Armenia: General Compliance Marred by Incidents of Serious Abuse*, November 28, 2005.

OSCE/COE/EU observers raised more concerns that vote-counting problems could harm public confidence in the results.²⁵

The two parties that won the most votes in the May 2007 election — the Republican Party of Armenia and the Prosperous Armenia Party — announced on June 6 that they had formed a coalition to cooperate on legislative tasks and the formation of the government. They also agreed to jointly back one candidate for the upcoming 2008 presidential election. They signed a side agreement with another pro-government party that won many votes — the Armenian Revolutionary Federation — on its participation in the coalition, although it reserved the right to run its own candidate in the presidential race. On June 7, the new legislature convened and re-elected Tigran Torosyan as its speaker. President Robert Kocharyan appointed Serzh Sargsyan as prime minister on June 7. Kocharyan has openly expressed his support for Sarkisyan’s bid for the presidency.

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 disappointment” with “serious deficiencies” in the election and “extreme concern” about post-election violence and “politically-motivated arrests.”²⁶

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 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

²⁵ OSCE. ODIHR. *Parliamentary Elections, Republic of Armenia, 12 May 2007: Statement of Preliminary Findings and Conclusions*, May 13, 2007; *Post-Election Interim Report*, No. 1, May 22, 2007. PACE. Ad Hoc Committee of the Bureau of the Assembly. *Report: Observation of the Parliamentary Elections in Armenia*, Doc. 11312, June 20, 2007. According to this report, “the shortcomings and irregularities, some of which were serious, observed during the crucial vote count and tabulation processes stain the positive preliminary assessment.... [T]hey could undermine the transparency and public confidence in the conduct and results of these elections. In addition, they raise questions with regard to the robustness of the electoral process....” See also CRS Report RS22675, *Armenia’s Legislative Election*, by Jim Nichol.

²⁶ U.S. Department of State. *Press Statement: Presidential Election in Azerbaijan*, October 21, 2003. In January 2007, the European Court of Human Rights ruled that one of those arrested, opposition politician Sardar Jalaloglu, had been tortured while in detention.

address some electoral irregularities.²⁷ Repeat elections were scheduled for May 2006 in ten constituencies where alleged irregularities took place. According to OSCE election monitors, the repeat race appeared to be an improvement over the November election, but irregularities needed to be addressed, including interference by local officials in campaigns. The ruling Yeni Azerbaijan Party won 62 seats, the independents 44, and Musavat 5. The remaining 14 seats were held by several small parties.²⁸

During the run-up to the 2005 legislative election, authorities arrested several prominent officials on charges of coup-plotting. Further arrests on such charges have taken place since then. Some critics of the arrests claimed that the defendants included former cohorts of Heydar Aliyev or others who simply opposed Ilkham's policies. Although arrested on suspicion of coup-plotting, several officials instead have been convicted on lesser charges. One sensational trial involves Farhad Aliyev, former minister of economic development (no relation to Ilkham Aliyev), who was among those arrested in 2005. After much delay, his trial began in late February 2007. He is being tried along with his brother, Rafiq (a businessman), and 17 others on charges of embezzlement. He claims he is being tried because of his advocacy of closer Azerbaijani ties with the United States and the EU, economic reforms, and anti-corruption efforts. Senator John McCain and Representatives Gary Ackerman and Alcee Hastings have been among those in Congress concerned about due process in the case (see below, *Legislation*).²⁹

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 declared 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.³⁰ Answering this criticism, Deputy Assistant Secretary Bryza stated in June 2006 that "just because Azerbaijan hasn't gone as far as we would like on democracy doesn't mean we're going to ignore our energy interests or our military interests. That's not

²⁷ 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.

²⁸ OSCE/ODIHR Mission. *Press Release: Partial Repeat Parliamentary Elections in Azerbaijan Underscore Continuing Need for Electoral Reform*, May 15, 2006.

²⁹ *Eurasia Insight*, October 30, 2006; *Congressional Record*, March 29, 2007, pp. E708-709. See also PACE. Committee on the Honoring of Obligations and Commitments by Member States of the Council of Europe, *Honoring of Obligations and Commitments by Azerbaijan*, *Explanatory Memorandum*, Doc. 11226, March 30, 2007.

³⁰ The White House. Office of the Press Secretary. *President Bush Welcomes President Aliyev of Azerbaijan to the White House*, April 28, 2006; *CEDR*, May 2, 2006, Doc. No. CEP-950092; Council on Foreign Relations. *A Conversation with Ilkham Aliyev*, April 26, 2006.

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.”³¹

On November 29, 2006, the State Department issued a statement raising concerns that by closing the popular independent television station ANS and evicting an opposition newspaper and an independent news agency from their premises, Azerbaijan’s “government is seriously impeding the ability of independent journalists to work.” The government soon permitted ANS to resume broadcasts and at the end of April 2007 issued it a six-year license.³² The U.S. Embassy in May 2007 reportedly raised concerns that the conviction of two journalists on charges of fomenting religious hatred — because they had written an article comparing Islam to Christianity — was another example of restrictions on freedom of the press.³³

Among other incidents involving independent media, Eynulla Fatullayev, the editor-in-chief of the *Realnyy Azerbaydzhan* and *Gundalik Azarbaycan* newspapers, was sentenced to prison in April 2007 for 30 months. He was charged with authoring Internet remarks on the NK conflict that were deemed to defame the Azerbaijani military. He denied authorship of the remarks. The U.S. Embassy in Azerbaijan reportedly reacted to the sentence by stating that a journalist should not face criminal prosecution because of his opinions.³⁴ New charges of tax evasion were filed in September 2007.³⁵ The NGO Freedom House took this increased mistreatment of opposition journalists and legal pressure on independent media into account in June 2007 when it further reduced its democratization ranking for Azerbaijan. PACE reportedly will consider a critical assessment of press freedom in Azerbaijan at its October 2007 session.³⁶

Georgia. Georgia experienced increased political instability in the 2000s as President Shevardnadze appeared less committed to economic and democratic reforms. 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-Shevardnadze 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.

³¹ *RFE/RL*, June 23, 2006.

³² For concerns about eroding media freedom, see Amnesty International. *Azerbaijan: The Contracting Space for Freedom of Expression*, January 24, 2007; and PACE. *Honoring of Obligations and Commitments by Azerbaijan*, March 30, 2007.

³³ *CEDR*, May 7, 2007, Doc. No. CEP-950111.

³⁴ *Turan Information Agency*, April 23, 2007.

³⁵ *CEDR*, September 7, 2007, Doc. No. CEP-950351.

³⁶ Freedom House. *Nations in Transit 2007*, June 14, 2007. The ranking was reduced from 5.93 in 2006 to 6.0 in 2007, on a scale of one to seven, with one representing the highest and seven the lowest level of democratic progress.

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.³⁷ Legislative elections were held in March 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.³⁸

Some Georgian observers claim that Saakashvili's reforms demonstrate that Soviet successor states can democratize and that this example threatens regimes in Belarus and Russia that argue that such reforms are culturally inappropriate. These observers allege that President Putin has reacted by ratcheting up economic pressure on Georgia to reduce Saakashvili's popularity in Georgia and so encourage "regime change."³⁹

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

³⁷ For background, see CRS Report RS21685, *Coup in Georgia [Republic]: Recent Developments and Implications*, by Jim Nichol.

³⁸ 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 *CEDR*, May 4, 2005, Doc. No. CEP-26020.

³⁹ One perhaps troubling human rights case in Georgia involves the arrest in September 2006 on coup charges of 13 leaders and members of opposition political parties and groups allegedly linked to exiled former security head Igor Georgadze. In August 2007, 12 of the 13 were sentenced for up to 8.5 years, and one person received a suspended sentence. Human Rights Watch had raised concerns that the closed trial might not be fair. *Human Rights Watch's Open Letter to the Tbilisi City Court Chair*, April 3, 2007.

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 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.⁴⁰

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 end Russia’s military presence and support to separatists. Azerbaijan has been concerned about Russia’s ties with Armenia, has worked to ensure that its energy resources are not controlled by Russia, and has limited Russia’s military presence. Until late 2006, it appeared that Azerbaijan valued having some cooperative relations with Russia, and criticized Georgia’s inability to maintain such ties with Russia. However, Azerbaijani-Russian relations seemed to worsen in late 2006 when Russia’s demands for higher gas prices and moves against migrant workers contributed to greater solidarity between Azerbaijan and Georgia.

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 about an increased U.S. presence in the South Caucasus. At the end of February 2007, Russian Foreign Minister Sergey Lavrov warned that Russia “will not permit” such NATO expansion to its southern border.⁴¹

Georgia’s arrest of four Russian servicemen in late September 2006 on charges of espionage and plotting to overthrow the government heightened tensions between Georgia and Russia. Although Georgia handed over the servicemen on October 2, Russia retaliated in a form viewed as troubling by many international observers, including cutting off financial flows to Georgia, severing direct transport and postal links (Russia had banned imports of Georgian wine, mineral water, and other agricultural products in spring 2006), ending the issuing of visas, raiding ethnic Georgian-owned businesses, expelling hundreds of Georgians, and compiling lists

⁴⁰ “Separatist Abkhazia a Paradise for Russian Tourists,” *Agence France-Presse*, July 19, 2006; “Breakaway Region’s Fate in Limbo,” *Agence France-Presse*, July 19, 2006.

⁴¹ Kakha Jibladze, “Georgian-NATO Relations Receive Boost from Brussels,” *Central Asia-Caucasus Analyst*, March 7, 2007.

of ethnic Georgians in the public schools. Russia sent its ambassador back to Tbilisi in January 2007, but continued to restrict most trade.

Russia's move to ease some visa restrictions in late July 2007 raised hopes of a thaw in Georgia-Russia relations, but such hopes were quickly dashed in early August 2007. Georgia alleged that some aircraft were tracked on its radars as they entered the country's airspace from Russia, and that one launched a missile which failed to detonate. A group of experts from Latvia, Lithuania, Sweden, and the United States concluded on August 14 that one aircraft entering from Russia dropped a Russian-designed KH-58 (NATO designation AS-11 Kilter) anti-radar air to surface missile. Another group of experts from the United Kingdom, Estonia, and Poland similarly concluded on August 20 that one or possibly more aircraft had flown from Russia into Georgian airspace, and that one had launched a KH-58U. A group of experts representing the CIS, on the other hand, asserted on August 22 that the incident was a Georgian fabrication. An OSCE emissary on September 6 declined to support either Georgia's or Russia's version of events, but he did advocate a greater OSCE presence (an earlier OSCE presence along the Georgia-Russia border, however, had been ended at Russia's insistence in 2005).⁴²

Seeming to add to worsening relations, Georgia seized two North Ossetian peacekeepers in late August on the grounds that they had harassed Georgian journalists. The Russian Foreign Ministry stated on September 13, 2007, that the "open arbitrariness against the Russian citizens goes beyond the norms of civilized interstate intercourse."⁴³

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.⁴⁴

In early 2006, Russia charged all three regional states much more for gas. In May 2006, Armenia agreed to relinquish various energy assets to Russian firms as

⁴² *Report from the International Group of Experts Investigating the Possible Violation of Georgian Airspace and the Recovered Missile Near Tsitelubani, Georgia, 6 August 2007, August 14, 2007; Second Independent Inter-Governmental Expert Group (IIEG-2). Report Investigating Possible Violations of Georgian Airspace and the Recovered Missile near Tsitelubani, Georgia, 6 August 2007, August 20, 2007; States News Service, Press Conference by Russian Federation, August 21, 2007; CEDR, August 8, 2007, Doc. No. CEP-950011.*

⁴³ *CEDR, September 14, 2007, Doc. No. CEP-950064.*

⁴⁴ 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 *CEDR*, April 6, 2004, Doc. No. CEP-17.

partial payment for this price increase. Some critics have alleged that Russia now has virtual control over Armenia's energy supplies.

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

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).⁴⁵ Russia also secured permission for two military bases in Armenia and four in Georgia. Russian border troops guard Armenia's borders with Turkey and Iran. 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.⁴⁶ In 1993, Azerbaijan was the first Eurasian state to get Russian troops to withdraw, except at the Qabala (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

⁴⁵ According to Armenian Foreign Minister Oskanyan, Article 4 of the CST ("in case an act of aggression is committed against any of the member-states, all other member-states will render it necessary assistance, including military, as well as provide support with the means at their disposal through an exercise of the right to collective defense") pertains to aggression from outside the CIS, so does not pertain to the Armenia-Azerbaijan conflict (since Azerbaijan is a member of the CIS). Interview, October 26, 2006.

⁴⁶ *The Military Balance 2005-2006*. London: International Institute of Strategic Studies, 2005.

extremists) in Georgia, including those hiding in the Gorge and others that Russia alleged were transiting Georgia to fight in Chechnya. In April 2006, Azerbaijan convicted 16 people on charges that they had received terrorist training from Al Qaeda operatives in the Pankisi Gorge. Russia's security service reported at the end of November 2006 that it had killed Al Qaeda member Faris Yusef Amirat (aliases included Abu Haf and Amzhet). It alleged that he had hidden in the Pankisi Gorge during the winter of 2005-2006, had operated in Chechnya in the summer of 2006, and was returning to the Gorge when he was killed in Russia's Dagestan region.⁴⁷

At the June 2007 summit of the Group of Eight (G-8) industrialized countries, President Putin proposed that President Bush consider using Russia's Soviet-era missile radar in Qabala as an early warning system. Putin claimed that the radar would be able to detect possible tests by Iran of a missile that could target Europe, and would render unnecessary or premature U.S. plans to build a radar site in Czech Republic and an interceptor missile site in Poland.⁴⁸ On June 10, Azerbaijani President Aliyev reportedly stated that the possible joint U.S.-Russia use of the radar might enhance Azerbaijan's strategic ties with both countries. A U.S., Russian, and Azerbaijani delegation toured the radar site in September 2007.

Russian "Peacekeepers". 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 Ossetian 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.

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. 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).

⁴⁷ CEDR, November 27, 2006, Doc. No. CEP-358003. For background, see CRS Report RS21319, *Georgia's Pankisi Gorge*, by Jim Nichol.

⁴⁸ CEDR, March 5, 2007, Doc. No. CEP-358007; May 17, 2007, Doc. No. CEP-4009; May 24, 2007, Doc. No. CEP-950157; June 7, 2007, Doc. No. CEP-950369.

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). NATO signatories hesitated to ratify the amended Treaty until Russia satisfied 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.⁴⁹ Georgia objects to this stance.

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.⁵⁰ The two countries agreed that the base at Akhalkalaki would be closed by October 2007, and that Batumi would be closed by October 2008. On June 27, 2007, Russia formally handed over the Akhalkalaki base to Georgia’s control.

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 is one of Georgia’s primary trade partners. New pipelines delivering oil and gas westward from the Caspian Sea reflect cooperation between Azerbaijan, Georgia, and Turkey.

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

⁴⁹ A Russian military analyst reported in early 2007 that there also were nine aircraft and ten helicopters at “airbase Gudauta.” *CEDR*, May 3, 2007, Doc. No. CEP-305001.

⁵⁰ *CEDR*, May 24, 2005, Doc. No. CEP-378001. In June 2007, two Russian mountain brigades consisting of about 4,500 troops began to deploy near Georgia’s borders, ostensibly to enhance security after the base closures. *RIA Novosti*, June 26, 2007.

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 occurred in 2005-2006 with the long-delayed opening of an Azerbaijani consulate in Tabriz and various leadership summits.

In recent months, Iran has boosted its diplomacy in the region, perhaps to counter growing international concern about its nuclear programs and to counter U.S. influence. Iran's plans for better relations with Azerbaijan have appeared to be jeopardized by its alleged suppression of rising dissent among "Southern Azerbaijanis," but the leaders of both countries hailed close ties during President Mahmud Ahmadinezhad's Baku visit in August 2007. The two presidents signed accords on facilitating Azerbaijan's access to its Nakhichevan exclave and on cooperating in dam-building. President Ahmadinezhad supported Azerbaijan's territorial integrity and Baku blocked an attempt by some "Southern Azerbaijanis" and others to protest the visit. U.S. policy aims to contain Iran's threats to U.S. interests.⁵¹

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. As part of its European Neighborhood Policy, the EU signed Action Plans with the three regional states in November 2006 that it hoped would foster both European and regional integration. 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,

⁵¹ See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

Ukraine, and Kazakhstan, which have received sizeable Comprehensive Threat Reduction funds). See **Table 1**. U.S. assistance to the region FY1992-FY2005 amounts to about 14% of all aid to Eurasia and 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. In Foreign Operations Appropriations for FY1998 (P.L. 105-118), Congress created a new South Caucasian funding category to emphasize regional peace and development, and since then has upheld this funding category in yearly appropriations. Congress also has called for humanitarian aid to be provided to NK, which has amounted to \$27 million from FY1998 through FY2006, and an estimated \$2 million planned for FY2007. 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 global assistance program, the Millennium Challenge Account (Section D of P.L. 108-199). A newly established Millennium Challenge Corporation (MCC) signed a five-year, \$295.3 million agreement (termed a “compact”) with Georgia in September 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. The MCC reported in August 2007 that it had so far disbursed \$29.04 million to Georgia, although plans had called for disbursing over \$157.3 million by the end of the year.

In December 2005, the MCC approved plans to sign 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 and Armenia signed the compact, and it went into force in September 2006.⁵² The MCC reported that as of August 2007 it had disbursed \$5.94 million to Armenia, and planned a total disbursement of \$12.6 million by the end of the year.

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

⁵² 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>].

U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after September 11, 2001 (see **Table 1**). In testimony in March 2005, Gen. James Jones, then-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.”⁵³

EUCOM initiatives in the region have included the Sustainment and Stability Operations Program (SSOP) in Georgia, the South Caucasus Clearinghouse, and the Caspian Maritime Security Cooperation program. The 16-month SSOP was launched in early 2005 as a follow-on to the Georgia Train and Equip Program (GTEP).⁵⁴ SSOP was funded at \$60.5 million in FY2005. 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.⁵⁵ The Clearinghouse aims to facilitate cooperation by sharing data on security assistance among both donor and recipient countries. Gen. Bantz Craddock, Commander of EUCOM, testified in May 2007 that the Caspian Maritime Security Cooperation program aims to “enhance the capabilities of Azerbaijan and Kazakhstan to prevent and, if needed, respond to terrorism, nuclear proliferation, drug and other trafficking, and additional transnational threats.”⁵⁶ (This program appears to combine elements of the former Caspian Guard and Hydrocarbons programs.) 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.⁵⁷ In November 2004, Gen. Charles Wald, then-deputy head of EUCOM, suggested that

⁵³ 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.

⁵⁴ 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.

⁵⁵ “U.S. Allocates \$30 mln for SSOP Army Training Program,” *Civil Georgia*, July 17, 2006.

⁵⁶ U.S. Senate. Committee on Armed Services. *Statement of General Bantz J. Craddock*, May 17, 2007.

⁵⁷ “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.

the Administration was exploring the establishment of “cooperative security locations” (CSLs) — sites without a full-time U.S. military presence that would be used for refueling and short-duration deployments — in Azerbaijan or Georgia.⁵⁸

All three regional states joined NATO’s Partnership for Peace (PFP) in 1994. 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 inter-operability with NATO. In 2004-2005, all three states agreed with NATO to participate in Individual Partnership Action Plans (IPAPs) for military and civil-military reforms. On September 21, 2006, NATO approved Georgia’s application for “Intensified Dialogue” with the alliance, ostensibly because of Georgia’s military reform progress, although NATO also emphasized that much more reform work needed to be done before Georgia might be considered for NATO membership. Although the United States reportedly urged that Georgia be considered for a Membership Action Plan (MAP; preparatory to membership), NATO’s Riga Summit in November 2006 reaffirmed support for an intensified dialogue to assist Georgia in implementing reforms.⁵⁹ Troops from Armenia, Azerbaijan, and Georgia serve as peacekeepers in NATO-led operations in Kosovo, and Azerbaijan supports NATO-led operations in Afghanistan (Georgia in March 2007 announced that it planned to send troops to Afghanistan).

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 FY2008 budget request calls for more such aid for Azerbaijan than for Armenia.

⁵⁸ Vince Crawley, *Army Times*, November 22, 2004.

⁵⁹ NATO. North Atlantic Council. *Riga Summit Declaration*, November 29, 2006. President Bush stated that the United States supported Georgia’s NATO membership. “Remarks By President Bush In Riga, Latvia,” *PR Newswire*, November 28, 2006. Sen. Richard Lugar urged soon granting Georgia a MAP and suggested that NATO’s energy security would be facilitated by eventually offering NATO membership to Azerbaijan and Kazakhstan. “Senator Lugar Delivers Remarks at the Riga Summit, Latvia,” *Congressional Quarterly Transcripts*, November 27, 2006.

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.⁶⁰ U.S. policy goals regarding energy resources in Central Asia and the South Caucasus are reflected in the Administration's 2001 energy policy report.⁶¹ They include 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. The report 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 has encouraged Caspian energy development. Critics argue that oil and gas from Azerbaijan will amount to a tiny percent of world exports of each resource, but the Administration argues that these exports will nonetheless boost energy security somewhat for European customers currently relying on Russia.

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 million barrel per day capacity and 1,040-mile long BTC oil pipeline. In August 2002, the BTC Company (which includes U.S.

⁶⁰ U.S. Department of Energy. Energy Information Administration. *Azerbaijan Country Analysis Brief*, June 2005.

⁶¹ The White House. The National Energy Policy Development Group. *Reliable, Affordable, and Environmentally Sound Energy for America's Future*, May 16, 2001.

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. Azerbaijani media reported in July 2007 that the BTC pipeline had delivered over 150 million barrels of oil to Ceyhan and filled 194 tankers.⁶² A gas pipeline to Turkey (termed the South Caucasus Pipeline or SCP) was completed in March 2007, and exports initially are planned to be 233 billion cubic feet per year. The joint venture for the SCP includes Norway's Statoil (20.4%), British Petroleum (20.4%), Azerbaijan's Ministry of Industry and Energy (20%), and companies from Russia, Iran, France, and Turkey. Some in Armenia object to lack of access to these pipelines.

Some observers argue that the completion of the BTC and SCP and the decision to build a railway from Azerbaijan through Georgia to Turkey reflects growing awareness in the European Union as well as in the United States of the strategic importance of the South Caucasus.⁶³ Greece and Turkey plan to inaugurate the opening of a gas pipeline connection in September 2007. When operational, some gas from Azerbaijan can be exported to Greece. If an extension is built to Italy, this Turkey-Greece-Italy or TGI pipeline could permit Azerbaijan to supply a small fraction of the European Union's gas needs, according to some analysts, providing a source of supply besides Russia.

In March 2007, Azerbaijan and the United States signed a memorandum of understanding on energy cooperation that calls for discussions on the proposed TGI pipeline and a potential EU-backed Nabucco gas pipeline from Turkey to Austria. In June 2007, Deputy Assistant Secretary Bryza reportedly urged building the TGI and Nabucco gas pipelines and a trans-Caspian gas pipeline, so that Azerbaijani and Central Asian gas could be transported to Europe. He argued that these routes would be more economical than routes through Russia. On August 16, 2007, the U.S. Trade Development Administration granted Azerbaijan \$1.7 million to fund feasibility studies on building both an oil and a gas pipeline across the Caspian Sea to link to the BTC pipeline and the SCP. Some analysts raise concerns that without a trans-Caspian gas pipeline, there will not be enough Azerbaijani gas to fill the Nabucco pipeline, and argue that Iran also should be considered as a gas supplier.⁶⁴

Appearing to move against U.S. and European proposals for building a trans-Caspian gas pipeline that would link to the SCP and perhaps send gas through the proposed TGI and Nabucco pipelines, President Putin reached agreement with the presidents of Kazakhstan and Turkmenistan in May 2007 to build a new pipeline to transport their gas to Russia. Kazakhstan also agreed to send more oil to Russia through an upgraded Caspian Pipeline Consortium pipeline that Russia controls. To

⁶² *Azer-Press*, July 11, 2007.

⁶³ Jaba Devdariani and Blanka Hancilova, "EU Broaches Peacekeeping Possibility in Georgia," *Central Asia-Caucasus Analyst*, March 7, 2007; Rovshan Ismayilov, "Azerbaijan, Georgia and Turkey: Building a Transportation Triumvirate?" *Eurasia Insight*, February 7, 2007.

⁶⁴ U.S. Department of State. *Transcript: U.S. Official Discusses Energy Security Agreement with Azerbaijan*, March 22, 2007; Associated Press, June 6, 2007.

compete with the BTC oil pipeline, Russia signed an agreement with Bulgaria and Greece in April 2007 to build an oil pipeline that it will control. China appeared to complicate the plans of both Russia and the West when it signed accords with Turkmenistan and Kazakhstan in August 2007 on building oil and gas pipelines to the east.

In the winter of 2006-2007, Russia greatly boosted gas prices charged Azerbaijan and Georgia. Azerbaijan stopped importing gas from Russia and relied on its own resources, while Georgia tried to secure alternative and cheaper sources of supply. Azerbaijan agreed to supply some gas, but Georgia was forced to purchase some Russian gas.

On March 19, 2007, Armenian President Robert Kocharyan and Iranian President Mahmoud Ahmadinejad inaugurated an 88-mile gas pipeline from Tabriz in Iran to Kadjaran in Armenia. Initial deliveries reportedly will be 14.1 billion cubic feet per year of Iranian (and possibly Turkmen) gas. The Russian-controlled ArmRosGazprom joint venture operates the Iran-Armenia pipeline. Work has started on the second part of the pipeline, a 123 mile section from Kadjaran to Ararat. When it is completed in 2008, 88.3 billion cubic feet of gas per year will be supplied. Some of this gas will be used to generate electricity for Iran and Georgia, but the remainder may satisfy all Armenia's other consumption needs, removing its dependence on Russian gas transported via Georgia.⁶⁵

110th Congress Legislation

P.L. 110–17 (S. 494, Lugar)

The NATO Freedom Consolidation Act of 2007. Endorses NATO enlargement and the timely admission of new NATO members. Urges NATO to extend a Membership Action Plan for Georgia. Designates Georgia as eligible to receive security assistance under the program established by the NATO Participation Act of 1994 (P.L. 103-447). Introduced on February 6, 2007. Ordered to be reported without amendment by the Foreign Relations Committee on March 6, 2007 (H.Rept. 110-34). Passed the Senate on March 16, 2007. Passed the House on March 26, 2007. Signed into law on April 9, 2007 (P.L. 110–17).

P.L. 110-53 (H.R. 1, Bennie Thompson)

Implementing the 9/11 Commission Recommendations Act of 2007. Introduced on January 5, 2007. Passed the House on January 9, 2007. Passed the Senate with an amendment in the nature of a substitute on July 9, 2007. Conference report (H.Rept. 110-259) agreed to in the Senate on July 26 and in the House on July 27. Signed into law on August 3, 2007 (P.L. 110-53). Title 21 calls for the executive branch to promote democratization and respect for human rights in nondemocratic and democratic transition countries. Sec. 2033 calls for expanding scholarship, exchange, and library programs in predominantly Muslim countries to enhance respect for democracy and human rights.

⁶⁵ *Platt's Commodity News*, May 31, 2007.

H.Res. 106 (Schiff)/S.Res. 106 (Durbin)

A resolution calling on the President to ensure that the foreign policy of the United States reflects appropriate understanding and sensitivity concerning issues related to human rights, ethnic cleansing, and genocide documented in the United States record relating to the Armenian Genocide. H.Res. 106 was introduced on January 30, 2007. S.Res. 106 was introduced on March 14, 2007.

H.R. 2764 (Lowey)

Department of State, Foreign Operations, and Related Programs. Introduced and passed by the House on June 18, 2007 (H.Rept. 110-197). Reported in Senate with an amendment in the nature of a substitute (S.Rept. 110-128) on July 10, 2007. Passed the Senate on September 6, 2007; conferees appointed. The House Appropriations Committee recommended \$68 million in FREEDOM Support Act aid to Armenia (\$33 million above the Administration request), \$18 million for Azerbaijan (equal to the request), and \$50.5 million for Georgia (equal to the request). It recommended \$9 million in FMF for Georgia (\$1 million below the request) and \$3 million in FMF and \$500,000 in IMET for each of the countries of Armenia and Azerbaijan. The Committee recommended that that up to \$6 million be made available to address humanitarian needs in NK. The Senate Appropriations Committee called for \$39 million in FREEDOM Support Act aid to Armenia (\$4 million above the President's request), \$22 million for Azerbaijan (\$4 million above the request), and \$55 million for Georgia (\$5 million above the request). The Committee supported the Administration request for \$114.8 million to construct a new embassy in Azerbaijan and \$10 million for FMF for Georgia. The Committee recommended that funds be made available to address humanitarian needs in NK.

S.Res. 33 (Lugar)

A resolution urging the U.S. government to open negotiations on a free trade agreement with Georgia to eliminate tariffs and non-tariff barriers on trade in goods. Introduced on January 18, 2007. Referred to the Committee on Finance.

H.Con.Res. 183 (Hastings)

A concurrent resolution calling on the Azerbaijani government to release Farhad Aliyev and Rafiq Aliyev from detention pending a fair and open trial. Introduced on July 12, 2007. Referred to the House Committee on Foreign Affairs.

**Table 1. U.S. Foreign Aid to the Region,
FY1992-FY2006, and FY2008 Request**
(millions of dollars)

South Caucasus Country	FY1992- FY2005 Budgeted Aid ^a	FY2005 Budgeted Aid ^a	FY2006 Budgeted Aid ^a	FY2007 Estimate ^b	FY2008 Request ^b
Armenia	1,581.09	91.01	89.66	65.7	40.781
Azerbaijan	588.72	79.15	88.97	40.81	27.409
Georgia	1,611.17	126.87	153.01	75.95	66.421
Regional	38.73	2.03	11.1	NA	—
Total	3,819.71	299.06	342.74	182.46	134.611
Percent	13.6	15	17	28	31

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: FY2006 Annual Report*; State Department, *Congressional Budget Justification for Foreign Operations, FY2008*.

- a. FREEDOM Support Act and Agency budgets.
b. FREEDOM Support Act and other Function 150 funds. Includes Peace Corps funding, but does not include Defense or Energy Department funding, funding for exchanges, or Millennium Challenge Corporation programs in Armenia and Georgia. The FY2008 figures do not include food aid, which will be disbursed as necessary.

Figure 1. Map of the Region



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

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