



# 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 their dependence 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. Successive Administrations have supported U.S. private investment in Azerbaijan's energy sector as a means of increasing the diversity of world energy suppliers. The United States has been active in diplomatic efforts to resolve regional conflicts in the region. As part of the U.S. global counter-terrorism efforts, the U.S. military in 2002 began providing equipment and training for Georgia's military and security forces. Troops from all three regional states have participated in stabilization efforts in Afghanistan and Iraq. The South Caucasian troops serving in Iraq departed in late 2008. The regional states also have granted transit privileges for U.S. military personnel and equipment bound for Afghanistan.

Beginning on August 7, 2008, Russia and Georgia warred over Georgia's breakaway regions of Abkhazia and South Ossetia. Russian troops quickly swept into Georgia, destroyed infrastructure, and tightened their de facto control over the breakaway regions before a ceasefire was concluded on August 15. The conflict has had long-term effects on security dynamics in the region and beyond. Russia recognized the independence of Abkhazia and South Ossetia, but the United States and nearly all other nations have refused to follow suit. Russia established bases in Abkhazia and South Ossetia—in violation of the ceasefire accords—that buttress its long-time military presence in Armenia. Although there were some concerns that the South Caucasus had become less stable as a source and transit area for oil and gas, Kazakhstan and Turkmenistan are barging oil across the Caspian Sea for transit westward, and the European Union still plans to build the so-called Nabucco pipeline to bring Azerbaijani and other gas to Austria.

Key issues in the first session of the 112<sup>th</sup> Congress regarding the South Caucasus may include Armenia's independence and economic development; Azerbaijan's energy development; and Georgia's recovery from Russia's August 2008 military incursion. At the same time, concerns may include the status of human rights and democratization in the countries; the ongoing Armenia-Azerbaijan conflict over the breakaway Nagorno Karabakh region; and threats posed to Georgia and the international order by Russia's 2008 incursion and its diplomatic recognition of South Ossetia and Abkhazia. Congress may continue to scrutinize Armenia's and Georgia's reform progress as recipients of Millennium Challenge Account grants and the region's role as part of the Northern Distribution Network for the transit of military supplies to support U.S. and NATO operations in Afghanistan. Some members of Congress and other policymakers believe that the United States should provide greater support for the region's increasing role as an east-west trade and security corridor linking the Black Sea and Caspian Sea regions, and for Armenia's inclusion in such links. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, and terrorism, and to bolster the independence of the states. Others urge caution in adopting policies that will increase U.S. involvement in a region beset by ethnic and civil conflicts.

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## Most Recent Developments

At the December 1-2, 2010, summit meeting of the Organization for Security and Cooperation in Europe (OSCE), the United States and Russia clashed over the principle of Georgia's territorial integrity, over the pledge that all OSCE member states should be committed to democratization and respect for human rights, and over Russia's call for a new European security treaty. The United States called for reestablishing an OSCE Mission in Georgia that would have a mandate that included the breakaway areas, but Russia refused. Language in the final declaration recognizing territorial integrity as a core principle of the OSCE was deleted. At the summit, the co-chairs of the Minsk Group (group of countries working toward a settlement of the conflict over the breakaway Nagorno Karabakh region)—the United States, France, and Russia—and the presidents of Armenia and Azerbaijan issued a statement that called for "more decisive efforts to resolve the NK conflict." The presidents pledged to seek a final settlement based on international law. The OSCE co-chair countries "urged the leaders of Armenia and Azerbaijan to focus with renewed energy on the issues that still remain in the Basic Principles" (a template for a peace settlement; see below under "Nagorno Karabakh Conflict"), and called for additional steps to strengthen the ceasefire and carry out confidence-building measures.<sup>1</sup>

## 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 reconquered by Russia's Red (Communist) Army. They regained independence when the Soviet Union collapsed in 1991.<sup>2</sup>

## 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). Appropriations under the authority of the FREEDOM Support Act are included in the State Department's Assistance to Europe, Eurasia, and Central Asia Account.

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<sup>1</sup> OSCE, Astana Summit, Joint Statement by the Heads of Delegation of the OSCE Minsk Group Co-Chair Countries and the Presidents of Azerbaijan and Armenia, December 1, 2010.

<sup>2</sup> 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.

U.S. policy toward the South Caucasus states has included promoting the resolution of conflicts between Armenia and Azerbaijan over Azerbaijan's breakaway Nagorno Karabakh (NK) region and between Georgia and its breakaway regions of Abkhazia and South Ossetia (resolving these latter conflicts became much more difficult following the August 2008 conflict; see "The August 2008 Russia-Georgia Conflict," below). Since 1993, U.S. emissaries have been detailed to try to settle these conflicts. Congressional concerns about the NK conflict led to the inclusion of Section 907 in the FREEDOM Support Act, which prohibits U.S. government-to-government assistance to Azerbaijan, except for non-proliferation and disarmament activities, until the President determines that Azerbaijan has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK." Provisions in FY1996, FY1998, and FY1999 legislation eased the prohibition by providing for humanitarian, democratization, and business aid exemptions (on waiver authority enacted in 2002, see "Regional Responses After the September 11," below).

#### 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:** 15.86 million, slightly more than Kazakhstan; Armenia: 2.96 m.; Azerbaijan: 8.3 m.; Georgia: 4.6 m. (CIA, *The World Factbook*, July 2010 est.). Over 1 million people from the region are migrant workers in Russia and elsewhere.

**GDP:** \$122.5 billion: Armenia: \$16.2 b.; Azerbaijan: \$86.0 b.; Georgia: \$20.3 b. (*The World Factbook*, 2009 est., purchasing power parity).

Some observers argue that developments in the South Caucasus are largely marginal to U.S. strategic interests. 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 major role. Some observers argue that the U.S. interest in democratization and human rights should not be subordinated to interests in energy and anti-terrorism.<sup>3</sup>

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 could benefit U.S. relations with other Islamic countries. 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 somewhat lessen Western energy dependency on Russia and the Middle East (see below, "Caspian Energy Resources").

Assistant Secretary of State Philip Gordon stated in June 2009 that U.S. policy toward Armenia aims to assist it to "strengthen its security and prosperity by settling [its] conflict with Azerbaijan over NK and by encouraging Turkey and Armenia to normalize their relations.... We also seek to advance democratic and market economic reform in Armenia, including through the Millennium Challenge Corporation." He averred that "Azerbaijan is an important partner of the United States on regional security (especially counterterrorism) and on helping our European allies diversify

<sup>3</sup> 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.

their supplies of natural gas.... The United States has helped generate new progress toward a settlement of the NK conflict [by] facilitating five meetings between Presidents Sargsisyan and Aliyev over the past year.”<sup>4</sup> U.S. policy toward the 2009-2010 rapprochement efforts between Armenia and Turkey appeared to complicate U.S. relations with Azerbaijan (see below, “The Roles of Turkey, Iran, and Others”).<sup>5</sup>

Assistant Secretary of Defense Alexander Vershbow stated in August 2009 that U.S. policy toward Georgia rests on continued support for its territorial integrity, independence and sovereignty and rejects “any notion of spheres of influence in the region.... We stand by the principle that sovereign states have the right to ... choose their own partnerships and alliances.... Most importantly, we will continue to stand by and deepen our support to Georgia and its people. This support does not come blindly however, and we will calibrate our assistance to respect the needs of the Georgian people, to strengthen regional security, and to support democratic and economic reforms in Georgia.”<sup>6</sup>

In recent months, the United States has endeavored to reassure Azerbaijan that it continues to be a “strategic partner” in counter-terrorism cooperation and energy security and has appeared to balance these U.S. interests against its concerns about democratization in Azerbaijan. According to some views, relations between the United States and Azerbaijan had cooled after the Administration supported efforts in 2009-2010 by Armenia and Turkey to improve relations that Azerbaijan opposed and after President Aliyev was not invited to the U.S. Nuclear Security Summit in April 2010. Azerbaijan canceled a military computer exercise with the United States in May 2010, a move some viewed as a sign of cooling ties. At the same time, however, Azerbaijan continues troop support for NATO operations in Afghanistan (see below, “Operations in Iraq and Afghanistan”) and has played an increasingly significant role as part of the Northern Distribution Network for the transit of U.S. and NATO supplies to Afghanistan. Also, Azerbaijan has reiterated its intentions to step up supplies of oil and gas to Europe, including gas shipments through the prospective Nabucco pipeline.

In major efforts to improve relations, Defense Secretary Robert Gates visited Azerbaijan in June 2010 and Secretary Clinton visited on July 4, 2010, and President Obama met with President Aliyev in September 2010 on the sidelines of the fall convocation of the U.N. General Assembly in New York. During his June 6, 2010, visit to Baku, Secretary Gates thanked President Ilkham Aliyev for his country’s contributions to operations in Afghanistan and assured him of continued U.S. strategic interests in Azerbaijan. Secretary Gates delivered a letter from President Obama reportedly stressing these points.<sup>7</sup>

During her visit to Azerbaijan on July 4, 2010, Secretary Clinton stressed that Azerbaijan was an important bilateral partner of the United States. She claimed that Azerbaijan had made

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<sup>4</sup> U.S. House of Representatives. Committee on Foreign Affairs. Subcommittee on Europe. Hearing on Strengthening the Transatlantic Alliance: An Overview of the Obama Administration's Policies in Europe. *Statement by Philip H. Gordon, Assistant Secretary, Bureau of European and Eurasian Affairs*, June 16, 2009.

<sup>5</sup> Stephen Blank, “Nagorno-Karabakh: A Disaster in the Making?” *CACI Analyst*, December 23, 2009.

<sup>6</sup> U.S. Senate. Committee on Foreign Relations. Subcommittee on Europe. Hearing on Georgia: One Year After the August War. *Testimony of Alexander Vershbow, Assistant Secretary of Defense for International Security Affairs*, August 4, 2009.

<sup>7</sup> John Banusiewicz, “Gates Thanks Azerbaijan for Help in Afghanistan,” *American Forces Press Service*, June 6, 2010; Craig Whitlock, “Gates Carries Vow of U.S. Solidarity to Azerbaijanis,” *Washington Post*, June 7, 2010; Fariz Ismailzade, “Washington Moves to Repair Relations with Azerbaijan,” *CACI Analyst*, June 9, 2010.

“tremendous progress” in democratization and respect for human rights since its independence, but that “there is a lot of room for improvement” on such problems as restrictions on the media and civil society. She argued that such progress also has been a slow and incomplete process in the United States. She stated that “speaking personally, for myself, I would like to see [Section 907] repealed, but that’s up to the [U.S. Congress]. And until the Congress agrees, then we will continue to waive its effects on Azerbaijan.”<sup>8</sup> President Obama also stressed the importance of U.S.-Azerbaijani relations when he met with President Aliyev on September 24, 2010. President Obama expressed his appreciation for Azerbaijan’s contributions to supporting the NATO mission in Afghanistan and reaffirmed strong U.S. support for the OSCE Minsk Group process. The two presidents discussed regional security issues and ongoing energy cooperation and pledged to develop closer bilateral ties. In his speech to the U.N. General Assembly, President Obama called for Azerbaijan to implement democratic reforms and increase protections for human rights, including by releasing two Internet bloggers jailed for hooliganism in November 2009 (they were released in November 2010).<sup>9</sup>

Visiting Armenia on July 4-5, after visiting Azerbaijan, Secretary Clinton hailed President Sargsyan’s efforts to advance Armenia-Turkey rapprochement and called for further democratization and the establishment of a more inviting business and investment climate.<sup>10</sup> In both Armenia and Azerbaijan, she stated that NK conflict settlement efforts were discussed. She also paid a six-hour visit to Georgia on July 5 (see below, “U.S. Policy After the August 2008 Russia-Georgia Conflict”).

## Regional Responses After the September 11, 2001, Terrorist Attacks on the United States

In the wake of the September 11, 2001, terrorist attacks in New York and Washington, DC, the former Bush Administration 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 60 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. The waiver authority has been exercised annually.

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<sup>8</sup> U.S. Department of State. *Remarks by Secretary Clinton: Joint Press Availability With Azerbaijani Foreign Minister Mammadyarov*, July 4, 2010. She did not directly respond to a question about why she thought democratization was advancing rather than declining.

<sup>9</sup> The White House, Office of the Press Secretary, *Read-out of President Obama’s Meeting with Azerbaijani President Ilham Aliyev*, September 24, 2010.

<sup>10</sup> U.S. Department of State. *Remarks by Secretary Clinton: Joint Press Availability With Armenian Foreign Minister Eduard Nalbandyan*, July 4, 2010; *Meeting With Staff of Embassy Yerevan and Their Families*, July 5, 2010.



## Operations in Iraq and Afghanistan

Azerbaijan and Georgia were among the countries that openly pledged to support the U.S.-led Operation Iraqi Freedom (OIF), with both offering the use of their airbases, and to assist the United States in rebuilding Iraq. Both countries agreed to participate, subject to U.S. financial support, in the multinational stabilization force for Iraq. In August 2003, both Azerbaijan and Georgia dispatched forces to Iraq. Azerbaijan's 150 troops pulled out in late 2008. Georgia augmented its troops over time until 2,000 were serving in 2007-2008, the third-largest number of troops in Iraq, after the United States and the United Kingdom. Virtually all of these troops were pulled out in August 2008 in connection with the Russia-Georgia conflict. Armenia began sending personnel to Iraq in January 2005. Armenia's 46 personnel were pulled out in late 2008.

On November 16, 2009, Georgia sent 173 troops for training in Germany before their scheduled deployment at the end of March 2010 to support the International Security Assistance Force (ISAF) in Afghanistan. These troops have been boosted to 925 as of mid-2010. A small number serve with French forces and the rest with U.S. Marines in the Helmand Province. In January 2010, Armenia sent 40 troops for training in Germany before their deployment to Kunduz, Afghanistan, to serve with German forces. The number of troops was increased to 45 at the end of 2010. Azerbaijan deployed troops to Afghanistan in late 2002, and 90 currently are deployed as part of ISAF.<sup>11</sup>

The Georgian Defense Ministry reported on September 5, 2010, that first lieutenant Mukhran Shukvani, company commander of the 31st battalion, had been killed by an improvised explosive device in Helmand Province in Afghanistan. His was the first casualty since Georgian troops began their large-scale deployment to Afghanistan, and the first since Georgian troops served with the Soviet armed forces in Afghanistan in 1979-1988.

## Azerbaijan and the Northern Distribution Network (NDN)

Azerbaijan and Kyrgyzstan reportedly are the main overflight, refueling, and landing routes for U.S. and coalition troops bound for Afghanistan, and Azerbaijan also is a major land transport route for military fuel, food, and construction supplies. The Azerbaijani route is one of several routes through Russia, the South Caucasus, and Central Asia to Afghanistan—together termed the NDN—that supplement supply routes through Pakistan.

## U.S. Policy After the August 2008 Russia-Georgia Conflict

Strong U.S. support for Georgia is reflected in the U.S.-Georgia Charter on Strategic Partnership, signed in January 2009, which states that “our two countries share a vital interest in a strong, independent, sovereign, unified, and democratic Georgia.” The accord is similar to a U.S.-Ukraine Charter signed in December 2008 and a U.S.-Baltic Charter signed in 1998 with Estonia, Latvia, and Lithuania. In the security realm, “the United States and Georgia intend to expand the scope of their ongoing defense and security cooperation programs to defeat [threats to global peace and stability] and to promote peace and stability.” Such cooperation will “increase Georgian capabilities and ... strengthen Georgia’s candidacy for NATO membership.” In the economic realm, the two countries “intend to pursue an Enhanced Bilateral Investment Treaty, to

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<sup>11</sup> *CEDR*, December 9, 2009, Doc. No. CEP-950188.

expand Georgian access to the General System of Preferences, and to explore the possibility of a Free-Trade Agreement.” Energy security goals include “increasing Georgia’s energy production, enhanc[ing] energy efficiency, and increas[ing] the physical security of energy transit through Georgia to European markets.” In the realm of democratization, the two countries “pledge cooperation to bolster independent media, freedom of expression, and access to objective news and information,” and to further strengthen the rule of law. The United States pledged to train judges, prosecutors, defense lawyers, and police officers.<sup>12</sup> Former Deputy Assistant Secretary Bryza stressed that the charter did not provide security guarantees to Georgia. According to some observers, the Charter aimed to reaffirm the United States’ high strategic interest in Georgia’s fate, to counter perceptions that the United States (and the West) had acquiesced to increased Russian dominance in the South Caucasus.<sup>13</sup>

Some in Georgia expressed concern that the “reset” in U.S.-Russian relations pursued by the Obama Administration could lead the United States to downgrade ties with Tbilisi, or even make concessions to Russia at Georgia’s expense.<sup>14</sup> At the U.S.-Russia summit in July 2009, President Obama stated that one area where the two presidents “agreed to disagree” was on Georgia, where he stressed that he had “reiterated my firm belief that Georgia’s sovereignty and territorial integrity must be respected. Yet even as we work through our disagreements on Georgia’s borders, we do agree that no one has an interest in renewed military conflict.”<sup>15</sup> Michael McFaul, the Senior Director for Russian and Eurasian Affairs on the National Security Council, reported that President Obama also argued that the Russian idea of a “sphere of influence” in the Soviet successor states does not belong in the 21<sup>st</sup> century. The two presidents did agree, however, that “no one has an interest in renewed military conflict.”

Perhaps in order to calm the concerns of some Georgians over the “reset,” Vice President Joseph Biden visited Georgia in late July 2009 to emphasize the U.S. commitment. Appearing to also reassure Russia, he stressed that the U.S.-Georgia Charter did not represent an effort by the United States to create a sphere of influence in the region. Secretary Clinton visited Georgia on July 5, 2010. She urged Georgians not to focus on the past, possibly referring to the Russia-Georgia conflict, but to be “focused on what you can do today and tomorrow to improve your lives and the lives of your family and the lives of your fellow citizens by building your democracy and opening your economy and providing more justice and social inclusion, that, to me, is the great mission of Georgia.” While stating that the United States continued to call for Russia to pull back its troops to their positions on August 6, 2008 (in line with the six-point ceasefire agreement; see below), she also “strongly urged” Georgia to “not be baited or provoked into any action that would give any excuse to the Russians to take any further aggressive movements.”<sup>16</sup> Vice President Biden revisited Georgia on July 23, 2010—as in 2009, just after a U.S.-Russia summit—to reassure Georgia of U.S. commitments. The Vice President urged Georgia to continue to develop democratic institutions and free markets, including as the best

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<sup>12</sup> U.S. Department of State. *U.S.-Georgia Charter on Strategic Partnership*, January 9, 2009.

<sup>13</sup> David J. Smith, “US-Georgia Charter is Historic,” Potomac Institute for Policy Studies, January 12, 2009.

<sup>14</sup> Analysts Samuel Charap and Cory Welt have called for the United States to realize that Russia will not soon reverse its positions in Abkhazia and South Ossetia and to instead encourage Russia and Georgia to take moves to build stability and peace. “A New Approach to the Russia-Georgia Conflict: The United States Needs a Comprehensive Conflict Policy,” Center for American Progress, October 18, 2010.

<sup>15</sup> The White House. Office of the Press Secretary. *Press Conference by President Obama and President Medvedev of Russia*, July 6, 2009.

<sup>16</sup> U.S. Department of State. *Remarks by Secretary Clinton: Joint Press Availability With Georgian President Saakashvili*, July 5, 2010; *Remarks at a Town Hall With Georgian Women Leaders*; July 5, 2010.

means to attract the people of the breakaway areas to reintegrate with the rest of Georgia. He called for further democratization, including constitutional changes to create a balance of power between the legislative and executive branches of government.

Some observers have called for a reevaluation of some aspects of U.S. support for Georgia. These critics have argued that many U.S. policymakers have been captivated by Saakashvili's charismatic personality and pledges to democratize and have tended to overlook his bellicosity. They have warned that U.S. acceptance of Georgian troops for coalition operations in Afghanistan must not lead to U.S. defense commitments to Georgia, and a few have suggested that the United States should not unquestionably back Georgia's territorial integrity, but should rather encourage reconciliation and the consideration of options short of the near-term reintegration of the regions into Georgia. Other observers have called for a more robust U.S. and NATO effort to resupply Georgia with defensive weaponry so that it might deter or resist Russian aggression (see also below, U.S. Security Assistance). At the same time, most observers advise against extending diplomatic recognition to breakaway regions without an international consensus.<sup>17</sup>

## The South Caucasus's External Security Context

### Russian Involvement in the Region

After Vladimir Putin was elected president in 2000, Russia appeared to place great strategic importance on increasing, or at least maintaining, influence in the South Caucasus region. Several developments over the next few years appeared to jeopardize these influence efforts. These included the "rose revolution" in Georgia that appeared to usher in democratic reforms, NATO's increased ties with the regional states, 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. This declining Russian influence, however, appeared to be reversed as a result of the August 2008 Russia-Georgia conflict.

The Putin-Medvedev leadership has appeared to place its highest priority on exercising influence in the region in the military-strategic sphere and slightly less priority on influence in the economic sphere (particularly energy) 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 backing it in the South Caucasus.

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 concerns

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<sup>17</sup> Alexander Cooley and Lincoln Mitchell, "No Way to Treat Our Friends: Recasting Recent U.S.-Georgian Relations," *The Washington Quarterly*, January 2009, pp. 27-41; Lincoln Mitchell, *Uncertain Democracy: U.S. Foreign Policy and Georgia's Rose Revolution* (Philadelphia: University of Pennsylvania Press, 2009); "A Georgia-Russia War Discussion between Gordon Hahn and Johnson's Russia List," *Russia: Other Points of View*, October 17, 2008, at <http://www.russiaotherpointsofview.com>; Paul Saunders, "Help Has Strings Attached," *Washington Times*, December 17, 2009.

about Turkey. Azerbaijan has been concerned about Russia's ties with Armenia and has limited Russia's military presence. At the same time, Azerbaijan has appeared to value having cooperative relations with Russia to increase its options and leverage in diplomacy and trade. Georgia long tried to end the Russian military presence on its soil (including the presence of Russian "peacekeepers" in the breakaway regions).

### **Military-Strategic Interests**

Russia's armed presence in the South Caucasus has been multifaceted, including thousands of military base personnel, border troops, and until 2008, "peacekeepers." The first step by Russia in maintaining a military presence in the region was the promulgation of the Commonwealth of Independent States (CIS) Collective Security Treaty (CST) in 1992, which pledges members to consult in the event of a threat to one or several members, and to provide mutual aid if attacked (current members include Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan). Russia also secured permission for two military bases in Armenia and four in Georgia (on the latter bases, see below). The total number of Russian troops in Armenia has been estimated at about 3,200. Russian border troops guard Armenia's borders with Turkey and Iran.

During a visit by Russian President Dmitriy Medvedev to Armenia in August 2010, Armenia agreed to extend the basing agreement with Russia to the year 2044. In the basing accord, Russia also pledged that its forces would help safeguard Armenia's national security and that it would supply more modern weaponry for Armenia's armed forces. Although some officials in Armenia hailed the accord as providing greater assurance that Russia would intervene if Azerbaijan began operations against NK, Medvedev argued during a September 2010 visit to Azerbaijan that the accord was not aimed against Azerbaijan. Azerbaijan's Deputy Foreign Minister Araz Azimov similarly dismissed views that the accord meant that Russia would militarily support Armenia in the event of new NK conflict. Georgian Foreign Minister Grigol Vashadze, however, criticized the accord as strengthening Russia's military influence in the region, as compromising Armenia's independence, and as raising tensions that are inimical to the settlement of the NK conflict.<sup>18</sup>

In addition to the Russian troops in the South Caucasus, about 88,000 Russian troops are stationed nearby in the North Caucasus, and some naval forces of the Caspian Sea Flotilla are located in Astrakhan in Russia. 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.)<sup>19</sup>

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 April 2006, Azerbaijan convicted 16 people on charges that they had received terrorist training from Al Qaeda operatives in the Pankisi Gorge. In 2009, Russia renewed its allegations that the Gorge harbored terrorists. Georgia rejected these allegations as false and raised concerns that they might serve as a pretext for new Russian violations of Georgia's territorial integrity.

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<sup>18</sup> *Azerbaijan Press Agency*, September 8, 2010.

<sup>19</sup> *The Military Balance 2009*. London: International Institute of Strategic Studies, February 5, 2009.

### ***Russian “Peacekeepers” and Bases in Georgia***

Russia’s mediation of ceasefires between Georgia and its breakaway regions in the early 1990s resulted in agreement by the parties on the presence of Russian military “peacekeepers” in Abkhazia and South Ossetia. Russia’s “peacekeeping” role at that time received at least tacit approval from world governments and international organizations, with the proviso that the U.N. and the OSCE also provide monitoring. For many years, Georgian authorities voiced dissatisfaction with the role of the “peacekeepers” in facilitating a peace settlement and called for them to either be replaced or supplemented by a wider international peacekeeping force (see “Civil and Ethnic Conflict in Georgia”).

In the early 1990s, Georgia was pressured by Russia to agree to the long-term presence of four Russian military bases. By the late 1990s, however, many in Georgia were calling for the bases to close, and this received support from European countries during talks over amending the Conventional Armed Forces in Europe (CFE) Treaty. In 1999, Russia and Georgia agreed to provisions of the amended CFE Treaty calling for Russia to reduce weaponry at its four bases in Georgia, to soon close two of the bases, and to complete negotiations on the status of the other two bases. NATO signatories hesitated to ratify the amended Treaty until Russia satisfied these and other conditions. One base was soon closed and Russia claimed that it had closed another. In November 2007, the Russian Foreign Ministry proclaimed that it had closed the last base and that Russia had “fully” accomplished its obligations to Georgia on the withdrawal of military facilities.

Not even one year had passed, however, when Russia announced—following the August 2008 Russia-Georgia conflict—that two army brigades, each consisting of approximately 3,700 troops (later reduced, see below), would be deployed to new military bases in Abkhazia and South Ossetia. Some of these troops reportedly were soon deployed in temporary encampments pending the construction of permanent buildings. In addition to these army brigades, Russian border troops reportedly were deployed along regional borders with Georgia, along which engineer brigades were creating revetments, trenches, and minefields. A part of the Black Sea Fleet also was planned to be deployed to Ochamchire in Abkhazia.<sup>20</sup> In May 2009, Russia announced that the number of military troops would be reduced in each region because of economic problems in Russia. Reportedly, about 1,500 Russian troops are based in each region. However, they have been bolstered by the deployment of 1,300 border guards to each region.

### **Caspian Energy Resources**

Russia has tried to play a dominant role in future oil and gas production and transportation in the Caspian Sea region. A major lever has been the prices it charges the South Caucasian countries for gas. In 2006, Russia charged all three regional states much more for gas. Armenia agreed to relinquish various energy assets to Russian firms as partial payment for this price increase. Some critics have alleged that Russia now has virtual control over Armenia’s energy supplies. Russia again hiked gas prices in 2007. Georgia negotiated an agreement to receive some Azerbaijani gas via the new South Caucasus Pipeline (SCP, see “Building the Baku-Tbilisi-Ceyhan and South Caucasus Pipelines,” 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

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<sup>20</sup> Pavel Felgenhauer, “Georgian Officials Admit They Misread Russian Intentions,” *Eurasia Daily Monitor*, October 30, 2008; *CEDR*, January 22, 2009, Doc. No. CEP-548005; January 26, 2009, Doc. No. CEP-950277.

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. In the Winter of 2007-2008, Georgia again had to purchase some gas from Gazprom at higher prices, to supplement that supplied by Azerbaijan. Following the August 2008 Russia-Georgia conflict, Gazprom's arrangement with Georgia involving the transit of Russian gas to Armenia remained in place. Armenia pays a share of gas to Georgia as a transit fee. President Aliyev stated in June 2010 that Georgia would receive 10.6 billion cubic feet of gas from Azerbaijan in 2010, about one-fifth of Georgia's yearly consumption. (See also, "Energy Resources and U.S. Policy," for information on Russia's efforts to gain control of regional energy resources and infrastructure.)

## 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, even though Turkey favors 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 long viewed Turkey as an ally against such influence, and as a balance to Armenia's ties with Russia (see below for recent developments). 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.

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 have included Turkey's rejection that there was an Armenian genocide in 1915-1923 and its support for Azerbaijan in the NK conflict.

## The Armenia-Turkey Protocols of 2009

In September 2008, Turkey's President Abdullah Gül visited Armenia, ostensibly to view a soccer game, and this thaw contributed to the two countries reaching agreement in April 2009 on a "road map" for normalizing ties, including the establishment of full diplomatic relations and the opening of borders. After further negotiations, Turkish Foreign Minister Ahmet Davutoglu and Armenian Foreign Minister Edvard Nalbandian initialed two protocols "On Establishing Diplomatic Relations," and "On Development of Bilateral Relations" on August 31, 2009, and formally signed them on October 10, 2009. The United States reportedly actively supported Switzerland in mediating the talks that led to the signing of the protocols.<sup>21</sup> The protocol on diplomatic relations called for the two sides to establish embassies in each other's capitals within two months after the mutual legislatures approved the protocols and after the exchange of the

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<sup>21</sup> Visiting Moscow in October 2009, Secretary of State Hillary Clinton thanked Russia for its support for the talks. During Turkish Prime Minister Recep Tayyip Erdogan's December 7-8, 2009, visit to the United States, President Obama congratulated the Prime Minister "on some courageous steps that he has taken around the issue of normalizing Turkish/Armenian relations, and encouraged him to continue to move forward along this path." The White House. Office of the Press Secretary. *Remarks by President Obama and Prime Minister Erdogan of Turkey After Meeting*, December 7, 2009; *Hurriyet Daily News*. December 18, 2009.

articles of ratification of the protocol. The protocol on foreign relations called for the two sides to “agree to open the common border within two months after the entry into force of this Protocol,” that is, after ratification of the protocols by the legislatures of the two states, to “implement a dialogue on the historical dimension with the aim to restore mutual confidence between the two nations, including an impartial scientific examination of the historical records and archives to define existing problems and formulate recommendations,” and to undertake other cooperative efforts.<sup>22</sup> A ruling of the Armenian constitutional court on January 18, 2010, that the protocols could not affect Armenia’s policy on genocide recognition was criticized by the Turkish government as not being in conformity with the text of the protocols. The Armenian government stated that the ruling did not affect the conditions of the protocols. Azerbaijan strongly criticized Turkey for moving toward normalizing relations with Armenia without formally linking such a move to a peace settlement of the NK conflict. This criticism quickly elicited pledges by Turkey’s leaders that the Turkish legislature would not approve the protocols until there was progress in settling the NK conflict. On April 22, 2010, the ruling Armenian party coalition issued a statement that “considering the Turkish side’s refusal to fulfill the requirement to ratify the accord without preconditions in a reasonable time, making the continuation of the ratification process in the national parliament pointless, we consider it necessary to suspend this process.”<sup>23</sup>

Perhaps reflecting the repair of Azerbaijani-Turkish ties, in August 2010, Azerbaijan and Turkey signed a strategic partnership and mutual assistance agreement. The 10-year accord agreement specifies that if one of the sides is attacked by a third country, the sides will provide reciprocal aid. Other provisions call for the sides to cooperate to eliminate threats to national security; to ban the operation of groups threatening the independence, sovereignty and territorial integrity of the other side; to prevent their territories from being used for acts of aggression against the other side; and to cooperate in defense industry production, holding joint military exercises, and training army specialists.

## Iran

Iran’s goals in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence (Iran’s goal of containing Russia conflicts with its cooperation with Russia on these interests), ending regional instability that might threaten its own territorial integrity, and building economic links. A major share of the world’s Azerbaijanis reside in Iran (estimates range from 6 million to 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 leadership summits.

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<sup>22</sup> Ministry of Foreign Affairs of Armenia. *Protocol on the Establishment of Diplomatic Relations between the Republic of Armenia and the Turkish Republic and the Protocol on the Development of Mutual Relations Between the Republic of Armenia and the Turkish Republic*, August 31, 2009, at [http://www.armeniaforeignministry.com/pr\\_09/20090831\\_protocol.pdf](http://www.armeniaforeignministry.com/pr_09/20090831_protocol.pdf). See also *The Turkish Weekly*, August 31, 2009.

<sup>23</sup> “Armenia Suspends Normalization of Ties with Turkey,” *BBC News*, April 22, 2010.

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 has proposed to build a railroad link to Armenia and another to Azerbaijan. The latter railroad will permit not only greater trade with Azerbaijan but also with Russia. In 2009, Azerbaijan boosted its gas shipments to Iran. Iran's efforts to improve relations with Azerbaijan have appeared to be complicated, however, by its reported suppression of rising dissent among "Southern Azerbaijanis." U.S. policy aims to contain Iran's threats to U.S. interests.<sup>24</sup>

## Others

Among non-bordering states, the United States and European states are the most influential in the South Caucasus in terms of aid, trade, exchanges, and other ties. U.S. and European goals in the region are broadly compatible, involving integrating it into the West and preventing an anti-Western orientation, opening it to trade and transport, obtaining energy resources, and helping it become peaceful, stable, and democratic. 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 EU took the international lead in mediating the August 2008 Russia-Georgia conflict and in deploying observers after the ceasefire (see "The August 2008 Russia-Georgia Conflict," below). The EU launched an Eastern Partnership program in 2009 to deepen ties with the South Caucasus states. Under the program, the EU plans "deep and comprehensive free trade agreements with those countries willing and able to enter into a deeper engagement, gradual integration in the EU economy, and ... easier travel to the EU through gradual visa liberalization."<sup>25</sup>

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 wider region.

# 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 ongoing 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 and 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

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<sup>24</sup> See CRS Report RL32048, *Iran: U.S. Concerns and Policy Responses*, by Kenneth Katzman.

<sup>25</sup> EU. European Commission. "Eastern Partnership," at [http://ec.europa.eu/external\\_relations/eastern/index\\_en.htm](http://ec.europa.eu/external_relations/eastern/index_en.htm).



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). The borders of the countries do not coincide with eponymous ethnic populations. Efforts by ethnic minorities to secede are primary security concerns for all three states. NK relies on economic support from Armenia, and Abkhazia and South Ossetia from Russia.

### **Nagorno Karabakh Conflict**

In 1988, the Nagorno Karabakh (NK) Autonomous Region of Azerbaijan petitioned to become part of Armenia, sparking armed conflict between ethnic Armenians and ethnic Azerbaijanis. In December 1991, an NK referendum (boycotted by local ethnic Azerbaijanis) approved NK's independence and a Supreme Soviet was elected, which in January 1992 futilely appealed for world recognition. A ceasefire agreement was signed in July 1994 by Armenia, Azerbaijan, and NK Armenians (and mediators Russia and Kyrgyzstan) and the sides pledged to work toward a peace settlement. The conflict over the status of NK has resulted in about 15,000 casualties and hundreds of thousands of refugees and displaced persons in Armenia and Azerbaijan. According to the OSCE, an average of about 30 troops and civilians have been killed each year along the 137-mile "line of contact" and along the Armenia-Azerbaijan border dividing the conflicting sides.<sup>26</sup> The "Minsk Group" of concerned member-states of the Organization for Security and Cooperation in Europe (OSCE) was established to facilitate peace talks. The United States, France, and Russia co-chair the Minsk Group and other participants include (besides Armenia and Azerbaijan) Belarus, Germany, Italy, Portugal, the Netherlands, Sweden, Finland, and Turkey. An OSCE high-level planning group composed of military officers also was set up to plan for multi-national peacekeeping after a peace agreement is signed. In 1995, the OSCE chairman appointed a personal representative to help facilitate a peace settlement, including by carrying out monitoring missions along the line of contact and the Armenia-Azerbaijan border.

The U.N. High Commissioner for Refugees (UNHCR) has reported that at the beginning of 2010, there were still about 3,600 people considered refugees or displaced persons in Armenia. Armenia has granted citizenship and acted to permanently house most of the ethnic Armenians who fled Azerbaijan. UNHCR has reported that at the beginning of 2010, there were still about 588,000 people considered refugees or displaced persons in Azerbaijan.<sup>27</sup> The non-governmental International Crisis Group estimates that about 13%-14% of Azerbaijan's territory, including most of NK, is controlled by NK Armenian forces (*The World Factbook* estimates about 16%).<sup>28</sup> The Organization for Security and Cooperation in Europe's (OSCE's) "Minsk Group" of concerned

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<sup>26</sup> "Facilitating Dialogue: Interview with Ambassador Andrzej Kasprzyk," *OSCE Magazine*, January /2010.

<sup>27</sup> U.N. High Commissioner for Refugees, *Armenia: Statistical Snapshot*, at <http://www.unhcr.org/cgi-bin/texis/vtx/page?page=49e48d126>; *Azerbaijan: Statistical Snapshot*, at <http://www.unhcr.org/cgi-bin/texis/vtx/page?page=49e48d1e6>.

<sup>28</sup> *Nagorno-Karabakh: Viewing the Conflict from the Ground*, International Crisis Group, September 14, 2005; CIA, *The World Factbook. Azerbaijan*, at <https://www.cia.gov/cia/publications/factbook/geos/aj.html>. A map on the website of the "Government of the NK Republic," shows a map that includes the occupied areas as well as the bulk of the former NK Autonomous Region. See <http://www.karabakh.net/engl/gov?id=1>.

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.<sup>29</sup>

The Minsk Group reportedly has presented four proposals as a framework for talks, but a peace settlement has proved elusive. Since 2005, officials in both countries have reported negotiations on a fourth “hybrid” peace plan calling for initial agreement on “core principles.” In November 2007, then-Undersecretary of State Nicholas Burns, Russian Foreign Minister Sergey Lavrov, and French Foreign Minister Bernard Kouchner presented the Foreign Ministers of Armenia and Azerbaijan with a draft text—*Basic Principles for the Peaceful Settlement of the Nagorno-Karabakh Conflict*—for transmission to their presidents. These officials urged the two sides to accept the *Basic Principles* (also termed the Madrid principles, after the location where the draft text was presented) that had resulted from three years of talks and to begin “a new phase of talks” on a comprehensive peace settlement.<sup>30</sup> The Basic Principles call for the phased return of the territories surrounding NK to Azerbaijani control; an interim status for NK providing guarantees for security and self-governance; a corridor linking Armenia to NK; future determination of the final legal status of NK through a legally binding expression of will; the right of all internally displaced persons and refugees to return to their former places of residence; and international security guarantees that would include a peacekeeping operation.<sup>31</sup>

On November 2, 2008, Russian President Medvedev hosted talks in Moscow between Armenian President Serzh Sarkisyan and Azerbaijani President Ilkham Aliyev on a settlement of the NK conflict. A joint declaration signed by Aliyev and Sarkisyan (also termed the Meindorf declaration after the castle where talks were held) upheld a continued mediating role for the Minsk Group, but the talks represented Russia’s intention to play the major role in mediating the conflict, some observers argue. The joint declaration was the first document on the NK conflict signed by the leaders of Armenia and Azerbaijan since the ceasefire in 1994.

The co-chairs presented “renovated” Madrid principles to President Aliyev in Baku in December 2009 and to President Sarkisyan in Yerevan in January 2010. President Medvedev hosted Aliyev and Sarkisyan in Sochi, Russia in late January 2010, and the two sides reportedly agreed on many parts of a preamble to an agreement. In mid-February 2010, Azerbaijani Foreign Minister Mamedyarov announced that Baku accepted many of the elements of the “renovated” Madrid principles presented in late 2009. In June 2010, President Medvedev hosted another meeting between Presidents Aliyev and Sarkisyan in St. Petersburg, but no results were reported. In July 2010, the Russian and French foreign ministers and the U.S. deputy secretary of state issued a statement criticizing Armenia and Azerbaijan for not overcoming their differences to reach a peace agreement, and deploring recent negative trends, including violence along the line of contact that resulted in several casualties and bellicose statements by officials.

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<sup>29</sup> The status of the U.S. envoy was downgraded in 1993. In early 2006, the State Department eliminated the post of U.S. Special Negotiator for Eurasian Conflicts and divided its responsibilities among the Deputy Assistant Secretary of State and the Office of Caucasus Affairs and Regional Conflicts. In 2009, a separate post of U.S. OSCE Minsk Group Co-Chair was filled by Ambassador Robert Brodtke.

<sup>30</sup> U.S. Department of State. Office of the Spokesman. Media Note: Support for Basic Principles for Peaceful Settlement of the Nagorno-Karabakh Conflict, November 29, 2007.

<sup>31</sup> The White House. *Joint Statement on the Nagorno-Karabakh Conflict by U.S. President Obama, Russian President Medvedev, and French President Sarkozy at the L’Aquila Summit of the Eight*, July 10, 2009.

On September 8, 2010, the Minsk Group co-chairs crossed the line of contact separating NK Armenian and Azerbaijani armed forces, a variation on the periodic OSCE monitoring of the line of contact and the Armenian-Azerbaijan border. Reportedly, U.S. co-chair Robert Bradtke stated that the crossing—the first since 2001—underlined that the ceasefire should be respected, that the line is not a permanent border, and that eventually civilians will cross the line after a peace settlement.<sup>32</sup> The co-chairs carried out a Field Assessment Mission to the occupied areas in October 2010, the first since 2005, that assessed the number of people living there and their living conditions. The previous fact-finding mission had found that much of the occupied area was depopulated and devastated, although some land was being farmed.

### **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. Some observers argued that Russia's increasing controls over South Ossetia and Abkhazia over the years transformed the separatist conflicts into essentially Russia-Georgia disputes. Most residents of Abkhazia and South Ossetia were granted Russian citizenship and most appeared to want their regions to become independent or parts of Russia.<sup>33</sup>

U.S. diplomacy long appeared to urge Georgia to work within existing peace settlement frameworks for Abkhazia and South Ossetia—which allowed for Russian “peacekeeping”—while criticizing some Russian actions in the regions. This stance appeared to change during 2008, when the United States and other governments increasingly came to support Georgia's calls for the creation of alternative peace settlement mechanisms, particularly since talks under existing formats had broken down.

This U.S. policy shift was spurred by increasing Russian actions that appeared to threaten Georgia's territorial integrity. Among these, the Russian government in March 2008 formally withdrew from CIS economic sanctions on Abkhazia, permitting open Russian trade and investment. Of greater concern, President Putin issued a directive in April 2008 to step up government-to-government ties with Abkhazia and South Ossetia. He also ordered stepped up consular services for the many “Russian citizens” in the two regions. He proclaimed that many documents issued by the separatist governments and businesses which had been established in the regions would be recognized as legitimate by the Russian government. A meeting of the U.N. Security Council (UNSC) on April 23, 2008, discussed these Russian moves. Although the Security Council issued no public decision, the United States, Great Britain, France, and Germany stated that same day that they “are highly concerned about the latest Russian initiative to establish official ties with ... Abkhazia and South Ossetia without the consent of the Government of Georgia. We call on the Russian Federation to revoke or not to implement its decision.”<sup>34</sup> (For other Russian actions during 2008 specific to a breakaway region, see either “Developments in Abkhazia Before August 2008,” “Developments in South Ossetia Before August 2008,” or “The August 2008 Russia-Georgia Conflict,” below.)

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<sup>32</sup> *Azerbaijan Press Agency*, September 15, 2010.

<sup>33</sup> Vladimir Socor, *Eurasia Insight*, November 20, 2006. According to *Rossiyskoye Voennoye Obozreniye (Russian Military Review)*, published by the Defense Ministry, 80% of residents of Abkhazia are citizens of Russia, and most voted in the December 2007 Russian legislative election. *CEDR*, April 21, 2008, Doc. No. CEP-358004.

<sup>34</sup> “Germany, Great Britain, France, U.S.A. and Germany Passed Communiqué,” *Black Sea Press*, April 24, 2008.

### *Developments in Abkhazia Before August 2008*

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 in 1993. Georgia and Abkhazia agreed in April-May 1994 on a framework for a political settlement and the return of refugees. Russian troops (acting as CIS "peacekeepers") were deployed in a zone between Abkhazia and the rest of Georgia. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians.

The U.S. Deputy Assistant Secretary of State worked with the Special Representative of the U.N. Secretary General and other "Friends of the Secretary General" (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a settlement. Sticking points in talks 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 insisted on recognition of their independence as a precondition to large-scale repatriation.

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. Georgia claimed that only police were deployed in the Gorge, but Abkhazia asserted that military troops were present, in violation of the cease-fire agreement. Regular Georgia-Abkhazia peace talks were suspended in October 2006. Abkhazia called for Georgia to remove the government representatives and alleged military forces.

The United States and others in the international community raised concerns when the Russian foreign and defense ministries announced on April 29, 2008, that the number of "peacekeepers" in Abkhazia would be boosted up to the maximum permitted under ceasefire accords. The ministries claimed that the increases were necessary to counter a buildup of Georgian "military forces" and police in the Kodori Gorge, which they alleged were preparing to attack the de facto Abkhaz government. It was also troubling that 400 Russian paratroopers were deployed to Abkhazia that Russian officials reportedly stated would be fully armed in order to repulse possible Georgian attacks on Abkhazia.<sup>35</sup> In late May 2008, Russia announced that about 400 railway construction troops were being sent to Abkhazia for "humanitarian" work. These troops—whose role is to facilitate military positioning—reportedly left Abkhazia at the end of July 2008 after repairing tracks and bridges. According to former Deputy Assistant Secretary Bryza, the railway was used in August by Russia when its troops moved into Georgia.<sup>36</sup>

### *Developments in South Ossetia Before August 2008*

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

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<sup>35</sup> *ITAR-TASS*, May 6, 2008.

<sup>36</sup> Pavel Felgenhauer, *Eurasia Daily Monitor*, June 12, 2008; U.S. Department of State. Foreign Press Center. Briefing: The Situation in the Republic of Georgia and its Implications for the Caucasus, August 19, 2008.

of thousands of people. In June 1992, Russia brokered a cease-fire, and Russian, Georgian, and Ossetian “peacekeeping” units set up base camps in a security zone around Tskhinvali, South Ossetia. Reportedly, the units totaled around 1,100 troops, including about 530 Russians, a 300-member North Ossetian brigade (which actually was composed of South Ossetians and headed by a North Ossetian), and about 300 Georgians. OSCE monitors did most of the patrolling.

In 2004, President Saakashvili increased pressure on South Ossetia by tightening border controls and by 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. In November 2006, a popular referendum was held in South Ossetia to reaffirm its “independence” from Georgia. After October 2007, no more peace talks were held.

### ***The August 2008 Russia-Georgia Conflict***

Simmering long-time tensions erupted on the evening of August 7, 2008, when South Ossetia accused Georgia of launching a “massive” artillery barrage against its capital, Tskhinvali, while Georgia reported intense bombing of some Georgian villages in the conflict zone by South Ossetian forces. Georgia claims that South Ossetian forces did not respond to a ceasefire appeal but intensified their shelling, “forcing” Georgia to send in troops that reportedly soon controlled Tskhinvali and other areas.<sup>37</sup>

On August 8, Russia launched large-scale air attacks across Georgia and dispatched seasoned troops to South Ossetia that engaged Georgian forces in Tskhinvali later in the day. Reportedly, Russian troops had retaken Tskhinvali, occupied the bulk of South Ossetia, reached its border with the rest of Georgia, and were shelling areas across the border by the morning of August 10. Russian warplanes bombed the outskirts of the capital, Tbilisi, as well as other sites. Russian ships landed troops in Georgia’s breakaway Abkhazia region and took up positions off Georgia’s Black Sea coast.

On August 12, Medvedev declared that “the aim of Russia’s operation for coercing the Georgian side to peace had been achieved and it had been decided to conclude the operation.... The aggressor has been punished and suffered very heavy losses.”<sup>38</sup> Medvedev endorsed some elements of a European Union (EU) peace plan presented by visiting French President Nicolas Sarkozy. On August 15, the Georgian government accepted the French-brokered six-point cease-fire that left Russian forces in control of South Ossetia, Abkhazia, and “security zones” in undisputed Georgian territory.<sup>39</sup> The six points include commitments not to use force, to halt hostilities, to provide full access for humanitarian aid, to withdraw Georgian forces to the places

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<sup>37</sup> See also CRS Report RL34618, *Russia-Georgia Conflict in August 2008: Context and Implications for U.S. Interests*, by Jim Nichol.

<sup>38</sup> *ITAR-TASS*, August 12, 2008. On September 11, Prime Minister Putin stated that Georgia’s aggression was answered by “a well-deserved mighty punch” by Russia. *ITAR-TASS*, September 11, 2008.

<sup>39</sup> See CRS Report RL34618, *Russia-Georgia Conflict in August 2008: Context and Implications for U.S. Interests*, by Jim Nichol, August 29, 2008.

they were usually stationed prior to the conflict, to withdraw Russian forces to positions prior to the outbreak of hostilities (although they were permitted to implement security measures in the zone of the conflict until international monitors were in place), and to open international discussions on ensuring security and stability in Abkhazia and South Ossetia.

Much of the international community condemned President Medvedev's August 26 decree officially recognizing the independence of South Ossetia and Abkhazia.<sup>40</sup> Nicaragua, Venezuela, and Nauru<sup>41</sup> are the only countries that have followed suit in extending diplomatic relations to Abkhazia and South Ossetia.

On September 8, 2008, visiting French President Nicolas Sarkozy and Russian President Dmitriy Medvedev signed a follow-on ceasefire accord that fleshed out the provisions of the six-point peace plan. Among its provisions, it stipulated that Russian forces would withdraw from areas adjacent to the borders of Abkhazia and South Ossetia by October 11; that Georgian forces would return to their barracks by October 1; that international observers already in place from the U.N. and OSCE would remain; and that the number of international observers would be increased by October 1, to include at least 200 observers from the EU, and perhaps more later. The EU called for Russia to permit these observers to patrol in Abkhazia and South Ossetia. Russia's position has been that these observers cannot patrol in the regions without the approval of the regions, and the regional leaders have refused to permit such patrols. Although Sarkozy strongly implied that the international conference would examine the legal status of Georgia's breakaway Abkhazia and South Ossetia, Medvedev pointed out that the regions had been recognized as independent by Russia on August 26, 2008, and stated that disputing this recognition was a "fantasy."<sup>42</sup>

Many observers have argued that Russia aimed both to consolidate control over South Ossetia and Abkhazia and to depose Georgian President Mikheil Saakashvili when it launched the August 2008 military incursion into Georgia. Russia hoped to achieve this latter goal either directly by occupying Georgia's capital of Tbilisi and killing or arresting Saakashvili, or indirectly by triggering his overthrow, according to these observers. They state that Saakashvili's survival as the popularly elected president is a major accomplishment of the diplomacy led by the EU that ended Russia's offensive. They also suggest that the current political stability may indicate that

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<sup>40</sup> The EU fact-finding mission on the causes and outcome of the Russia-Georgia conflict stated that according to overwhelmingly accepted principles of international law, "only former constituent republics such as Georgia but not territorial sub-units such as South Ossetia or Abkhazia are granted independence in case of dismemberment of a larger entity such as the former Soviet Union. Hence, South Ossetia did not have a right to secede from Georgia, and the same holds true for Abkhazia.... Recognition of breakaway entities such as Abkhazia and South Ossetia by a third country ... runs against Principle I of the Helsinki Final Act which states "the participating States will respect each other's sovereign equality and individuality as well as all the rights inherent in and encompassed by its sovereignty, including in particular the right of every State to juridical equality, to territorial integrity and to freedom and political independence." The fact-finding mission also pointed out that the founding documents of the Commonwealth of Independent States, to which Georgia belonged from 1993 to 2008, called for upholding the territorial integrity of the members. Council of the European Union. *Report of the Independent International Fact-Finding Mission on the Conflict in Georgia*, September 2009, Vol. 1, p. 17; Vol. 2, pp. 127-146.

<sup>41</sup> Nauru (a 15-square-mile island in the South Pacific with a population estimated by the World Factbook at 14,000) recognized the independence of Georgia's breakaway Abkhazia and South Ossetia regions in mid-December 2009. The island allegedly solicited aid as a quid pro quo for recognition, and a few days before the island's emissaries flew to the regions, Russia reportedly proffered it aid. Open Source Center. Open Source Branch, December 18, 2009, Doc. No. OSB-225721.

<sup>42</sup> Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), September 28, 2008, Doc. No. CEP-950425; CEP-950440.

Georgia has made at least some democratization progress.<sup>43</sup> Others warn that democratization is halting and could face setbacks (see “Recent Democratization Problems and Progress”).<sup>44</sup>

By October 1, 2008, the EU Monitoring Mission (EUMM) had deployed over 200 monitors and Russia announced on October 9 that its troops had withdrawn from buffer zones. Georgia has maintained that Russian troops have not pulled out of Akhalkori, a district that Russia asserts is within South Ossetia’s Soviet-era borders, and the Kodori Gorge, and that no Russian military bases are permitted in the regions. In December 2008, Russia objected to continuing a mandate for about 200 OSCE observers in Georgia—including some observers authorized before the August 2008 conflict and some who were added after the August 2008 conflict—and they pulled out on June 30, 2009. Similarly, in June 2009 Russia vetoed a U.N. Security Council resolution that extended the UNOMIG mandate, and they pulled out of Abkhazia. The EUMM is now the sole international group of monitors. It reports that the number of staffers in 2010 is 320, that France and Germany are the largest contributors of monitors, and that the monitors are based in four field offices near the contested borders.<sup>45</sup>

According to Assistant Secretary of Defense Alexander Vershbow and Assistant Secretary of State Philip Gordon, the EUMM has been effective at debunking several allegations made by Russia and the separatist regions that ceasefire violations have been committed by Georgia. The United States and the EU continue to call for unrestricted access to Abkhazia and South Ossetia in order to monitor the ceasefire. Vershbow and Gordon have praised Georgia’s cooperation with the EUMM, including Georgia’s agreement with the EUMM at the beginning of 2009 to report all movements of its security forces near the administrative borders and to permit unannounced inspections of its military facilities. They contrast this cooperation to the refusal of Russia, Abkhazia, and South Ossetia to permit patrols in the regions.<sup>46</sup>

An international conference to discuss security, repatriation, and status issues related to the conflict held its inaugural session in Geneva on October 15, 2008. Facilitators at the talks include the U.N., the EU, and the United States. Russia has insisted at these meetings and elsewhere that Georgia sign a non-use of force agreement with the breakaway regions and that the international community impose an arms embargo on Georgia.

Among significant Geneva conference meetings:

- In February 2009, the sides agreed to set up an “incident prevention and response mechanism” along the South Ossetian border with the rest of Georgia in order to defuse tensions before they escalate. On April 23, the first meeting of the Georgia-South Ossetia Incident Prevention and Response Mechanism was

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<sup>43</sup> U.S. House of Representatives. Committee on Foreign Affairs. Hearing on U.S.-Russia Relations in the Aftermath of the Georgia Crisis. *Testimony of Daniel Fried, Assistant Secretary of State for European and Eurasian Affairs*, September 9, 2008. Saakashvili also highlighted this Russian aim during his testimony to the Georgian legislative commission investigating the causes of the conflict. See “Saakashvili Testifies Before War Commission, Analysts Comment,” *The Messenger* (Tbilisi), December 1, 2008. Georgia’s Ambassador to the United States, Davit Sikharulidze, argued that Russia’s “aim was to overthrow the [Georgian] government and it would have come true but for the U.S. interference.” *CEDR*, December 1, 2008, Doc. No. CEP-950233. Russia officially has denied such an aim.

<sup>44</sup> International Crisis Group. *Georgia: The Risks of Winter*, November 26, 2008.

<sup>45</sup> EUMM. *Mission Facts and Figures*, at [http://www.eumm.eu/en/about\\_eumm/facts\\_and\\_figures](http://www.eumm.eu/en/about_eumm/facts_and_figures).

<sup>46</sup> U.S. Senate. Committee on Foreign Relations. Subcommittee on Europe. Hearing on Georgia: One Year After the August War. *Testimony of Alexander Vershbow, Assistant Secretary of Defense for International Security Affairs*, and *Testimony of Philip H. Gordon, Assistant Secretary for European and Eurasian Affairs*, August 4, 2009.

convened in the Georgian town of Ergneti, with the participation of the Georgian and South Ossetian sides, as well as representatives of the Russian Ministry of Defense, the OSCE and the EU. Meetings were held sporadically until South Ossetia broke them off in October 2009. On June 3, 2010, an incident prevention meeting took place in Ergneti, Georgia.<sup>47</sup> Further progress was stalled, however, and on July 5, 2010, Secretary Clinton urged South Ossetia and Russia to support the renewal of incident prevention meetings.

- The May 2009 Geneva conference meeting almost broke up, with Russia delaying proceedings until a report was issued by the U.N. Secretary General on Abkhazia. The report, issued after the Russia walkout on May 19, was deemed suitable and proceedings resumed on May 20. At issue was a Russian demand that the acronym UNOMIG not appear in the report. Although dropping the acronym, the U.N. Secretary General nonetheless stressed that “the ceasefire regime ... has continued to erode. Heavy military equipment and military personnel [from Russia] have remained in the Mission’s area of responsibility.”<sup>48</sup>
- At the July 2009 Geneva conference meeting, the sides discussed setting up an incident prevention office along Abkhazia’s border with the rest of Georgia. A meeting in Gali to establish the office was held on July 14, 2009. Meetings are held at roughly 2-3 week intervals.
- The Russian, Abkhaz, and South Ossetian delegations lowered the status of their top emissaries attending a late July 2010 Geneva conference meeting to protest the lack of progress in concluding a non-use-of-force accord. The United States followed suit and lowered the status of its top emissary. The United States supported the Georgian position that Georgia already pledged the non-use-of-force in the ceasefire accords and that if a new accord is prepared, Russia should also sign it.
- The level of emissaries was restored at the October 14, 2010, meeting. Russia announced that it was pulling its troops out of the town of Perevi, Georgia, near the border with South Ossetia. The troops pulled out on October 18, 2010.<sup>49</sup> South Ossetia refused to discuss problems of refugees and displaced persons after a Georgian-sponsored resolution on the return of displaced persons and refugees to South Ossetia was approved by the U.N. General Assembly in September 2010.

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<sup>47</sup> CEDR, April 1, 2010, Doc. No. CEP-964033; *Interfax*, June 3, 2010.

<sup>48</sup> U.N. Security Council. *Report of the Secretary-General Pursuant to Security Council Resolutions 1808 (2008), 1839 (2008) and 1866 (2009) S/2009/254*, May 18, 2009. See also Georgian Ministry of Foreign Affairs. *Information for the Press on the Issues Discussed During the Fifth Round of the Geneva Discussions*, May 19, 2009.

<sup>49</sup> The Georgian Foreign Ministry issued a statement that the withdrawal of Russian troops from Perevi was welcome but was “just a miniscule step in comparison with commitments envisaged by the ceasefire agreement of August 12, 2008, which Russia still has to comply with.... The Russian Federation still occupies 20% of the territory of Georgia, where several military bases and more than ten thousand Russian troops continue to be stationed. The facts of human rights violations still occur in the occupied regions; hundreds of thousand refugees and internally displaced persons lack the possibility of safe and dignified return to the places of their residence. Moreover, the Russian Federation still blocks the international presence on the ground, including the EU Monitoring Mission.” *Statement of the Ministry of Foreign Affairs of Georgia on the Withdrawal of the Russian Armed Forces*, Ministry of Foreign Affairs of Georgia, October 19, 2010.



- Before the December 16, 2010, meeting, President Saakashvili stated that Georgia would not use force in its relations with Russia and the breakaway regions. South Ossetia and Abkhazia made similar pledges, but Georgia was disappointed that Russia did not reciprocate.

The International Crisis Group (ICG), a non-governmental organization, estimated in June 2010 that there may be fewer than 30,000 people residing in South Ossetia, and that the population continues to decline (a 1989 census, taken before the beginning of conflict, reported a regional population of 98,500). The ICG suggests that the region is increasingly less able to govern or sustain itself economically, so must rely on Russian aid and thousands of Russian construction and government workers, troops, and border guards that are deployed there.<sup>50</sup>

### *The Tagliavini Report on the Origins and Outcome of the August 2008 Conflict*

On September 30, 2009, a special EU fact-finding mission led by Swiss diplomat Heidi Tagliavini released a report on the origins and outcome of the August 2008 Russia-Georgia conflict. On the one hand, the mission concluded that “open hostilities began with a large-scale Georgian military operation against the town of Tskhinvali [in South Ossetia] and the surrounding areas, launched in the night of 7 to 8 August 2008. Operations started with a massive Georgian artillery attack.” The mission also argued that the artillery attack was not justifiable under international law. However, it also argued that the artillery attack “was only the culminating point of a long period of increasing tensions, provocations and incidents” by the parties to the conflict. On the other hand, the mission suggested that “much of the Russian military action went far beyond the reasonable limits of defense,” and that such “action outside South Ossetia was essentially conducted in violation of international law.” In Abkhazia, actions by Russian-supported militias in the upper Kodori Valley “constituted an illegal use of force ... not justified under international law.” The mission likewise asserted that actions by South Ossetian militias “against ethnic Georgians inside and outside South Ossetia, must be considered as having violated International humanitarian law and in many cases also human rights law.”<sup>51</sup> Commenting on the release of the report, a U.S. State Department spokesman stated that “we recognize that all sides made mistakes and miscalculations through the conflict last year. But our focus is on the future....”<sup>52</sup>

## **Economic Conditions, Blockades, and Stoppages**

The economies of all three South Caucasus states greatly declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remain fragile. Investment in oil and gas resources has fueled economic growth in Azerbaijan in recent years at the expense of other sectors of the economy. Widespread poverty and regional conflict have contributed to high emigration from all three states, and remittances from these émigrés have provided major support for the remaining populations.

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<sup>50</sup> International Crisis Group. *South Ossetia: The Burden of Recognition*, June 7, 2010.

<sup>51</sup> *Report of the Independent International Fact-Finding Mission on the Conflict in Georgia*, Vol. 3.

<sup>52</sup> U.S. Department of State. *Daily Press Briefing*, September 30, 2009.

The global economic downturn that began in 2008 has hampered Armenia's economic growth and added to Georgia's economic stresses in the wake of the August 2008 conflict. Azerbaijan claims, however, that GDP grew 9.3% in 2009. The influx of international assistance to Georgia has ameliorated to some degree the impact of the conflict and the world economic crisis. In October 2010, Russia announced a \$500 million loan to Armenia to assist it in economic stabilization and recovery.<sup>53</sup>

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.<sup>54</sup> According to the U.S. Embassy in Baku, Azerbaijan's Nakhichevan exclave "is blockaded by neighboring Armenia." Since 2006, Russia has severely restricted agricultural trade and land, air, and sea links with Georgia. Russia hinders Azerbaijan's use of the Volga-Don Canal to reach world shipping channels. Russia has at times cut off gas supplies to Georgia. During the August 2008 Russia-Georgia conflict, Russia's effective blockade of Georgia's Black Sea ports disrupted trade shipments to and from Armenia. In the wake of the conflict, gas transit from Russia to South Ossetia via other Georgian territory was disrupted, with each side blaming the other, until service was restored in late January 2009. In late August 2009, Russia completed construction of a 110-mile gas pipeline from North Ossetia to South Ossetia to avoid transiting Georgia. Trans-border road traffic between Georgia and the regions of South Ossetia and Abkhazia is severely restricted. Armenia criticizes Georgia's refusal to reopen a section of railway transiting the country to Abkhazia and Russia.

Turkey closed its land borders with Armenia in 1993. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports. Turkey's closure of land borders in effect barred direct U.S. shipments of aid through its territory to Armenia. Foreign Operations Appropriations for FY1996 (P.L. 104-107) and Omnibus Consolidated Appropriations for FY1997 (P.L. 104-208)<sup>55</sup> have mandated U.S. aid cutoffs (with a presidential waiver) to any country which restricts the transport or delivery of U.S. humanitarian aid to a third country. These provisions were designed to convince Turkey to allow the transit of U.S. aid to Armenia. (See also above, "The Roles of Turkey, Iran, and Others.")

## **Recent Democratization Problems and Progress**

According to the NGO Freedom House, in 2009 Armenia and Georgia ranked as "partly free," while Azerbaijan ranked as "not free," in terms of political rights and civil liberties. Armenia and Azerbaijan were assessed as having very restricted political rights, where elections have been marred by serious irregularities. The Armenian and Georgian governments were assessed as somewhat better in respecting civil liberties than was Azerbaijan, where the media have been

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<sup>53</sup> *ITAR-TASS*, October 20, 2010.

<sup>54</sup> Armenia long opposed the construction or revamping of a section of railway from Kars, Turkey, to Tbilisi (and thence to Azerbaijan) 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." The Export-Import Bank Reauthorization Act of 2006 (P.L. 109-438) prohibits the Bank from guaranteeing, insuring, or extending credit in support of any railway construction that does not traverse or connect with Armenia and does traverse or connect Baku, Tbilisi, and Kars. Work on the railway began in late 2007 and is planned to be completed in late 2011 or early 2012.

<sup>55</sup> P.L. 104-208, Sec. 559, amends the Foreign Assistance Authorization Act of 1961.

severely restricted. All three states were viewed as suffering from pervasive governmental, judicial, and societal corruption.<sup>56</sup>

## Armenia

Municipal elections for Yerevan were held in May 2009, the first in which the capital's mayor was indirectly elected rather than appointed by the president. The ruling Republican Party (HHK) secured 35 of 65 seats in the city council, which resulted in the HHK incumbent previously appointed by the president being reinstated as mayor. Opposition parties viewed the election as fraudulent. The NGO International Foundation for Electoral Systems (IFES) reported that "while there were some progressive elements in the work of local polling commissions ... these were offset by egregious violations.... The prevalence of unauthorized persons both inside and around the polling stations which served to intimidate voters and poll workers alike played a large role in determining the final, announced results of the vote."<sup>57</sup> In December 2009, co-rapporteurs for Armenia at the Parliamentary Assembly of the Council of Europe (PACE) raised concerns that an Armenian legislative report on a violent crackdown on protests after the March 2008 presidential election had largely exonerated the government, but called for reform recommendations made by the report to be implemented.<sup>58</sup>

## Azerbaijan

In June 2010, the Azerbaijani Milli Majlis (National Assembly) approved a bill calling for it to coordinate its yearly agenda with the presidential administration. Oppositionists criticized the law as further demonstrating that the legislature was controlled by the executive branch of government.

A constituency-based election for Azerbaijan's 125-member Milli Majlis was held on November 7, 2010. Candidates wishing to run were required to gather 450 signatures. About 1,400 individuals were nominated by parties or by voter initiatives or self-nominations, but only about 1,100 reportedly submitted the required signature sheets and other information. Electoral officials accepted all of the prospective candidates of the ruling New Azerbaijan Party (NAP) but rejected many from other parties and blocs, so that 690 candidates appeared on the ballot (43 of these were registered after appealing initial rejections, and 52 registered candidates dropped out). These rejections seriously impacted the ability of the opposition to field candidates in more than a few constituencies. While the NAP was able to field candidates in 111 constituencies, the opposition PFP-Musavat bloc, for instance, could only field candidates in 38 constituencies. In addition to candidates nominated by parties, 387 were self-nominated "independent" candidates or were nominated by voter initiative groups, although many of these candidates in fact were members of

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<sup>56</sup> *Freedom in the World*, Freedom House, January 12, 2010, at <http://www.freedomhouse.org/template.cfm?page=363&year=2010>.

<sup>57</sup> "IFES, an Observer of the Yerevan, Armenia Elections, Comments on the Poll," IFES, June 1, 2009, at <http://www.ifes.org/Content/Publications/Comments/2009/Jun/IFES-an-Observer-of-the-Yerevan-Armenia-Elections-Comments-on-the-Poll.aspx>.

<sup>58</sup> PACE. "Recommendations of Armenian Parliamentary Committee Provide 'a Comprehensive Although Not Complete' Response to March 2008 Crisis," *News*, December 22, 2009; "PACE Co-Rapporteurs Welcome Willingness of Armenian Authorities to Draw Up Reform 'Roadmap,'" *News*, March 25, 2010; Armenia Needs a Clear Roadmap of Reforms in Order to Consolidate Democracy," *News*, May 14, 2010.

parties. Historically, most independents who have won election have supported the NAP in the legislature.<sup>59</sup>

In the run-up to the election, three major developments appeared to assure that the ruling NAP would retain or increase its dominance in the legislature: (1) media, assembly, and campaign laws and practices greatly restricted the ability of opposition parties to publicize their concerns and counter claims of the ruling party; (2) the numerous opposition parties failed to unite and instead ran as party blocs and as individual parties; and (3) rising incomes for most of the population may have predisposed a large measure of support for the ruling party, despite some stresses caused by the global economic downturn. According to the OSCE and some NGOs, restrictions on an open campaign environment and a free and fair vote included reducing the number of campaign days to about three weeks; eliminating an electoral provision permitting individuals to run by submitting a financial deposit; doing away with public financing of elections; denying the holding of campaign rallies except in far-flung, officially approved locations; filing of defamation lawsuits and carrying out other harassing measures against journalists; providing dominant representation to the ruling NAP on electoral commissions and expert electoral appeal panels; and allowing opaque military voting. As a result of these restrictions, there were no public debates between candidates and virtually no television coverage of opposition candidates except for four minutes of time permitted for candidates to set forth their platforms.

Perhaps a factor in the election, on October 13, 2010, the ruling NAP asserted that the merger of Musavat Party and the Azerbaijan Popular Front “was made on an order from [the West] and aims at misleading public opinion.” The NAP also claimed that Isa Gambar, the head of the Musavat Party, was a traitor to the country because he had signed a declaration at an NGO conference in Potsdam, Germany, with Aram Manukyan, chairman of the Armenian National Movement, on the peaceful settlement of the NK conflict. Ali Ahmadov, the deputy chairman of NAP, reportedly stated that Musavat “cannot count on the Azerbaijani people [in an election] and rely on Armenians.” Gambar argued that the declaration, which was also signed by the head of Georgia’s Republican Party, David Usupashvili, did not harm Azerbaijan’s security.<sup>60</sup>

According to the Central Electoral Commission, about 50% of 4.9 million registered voters turned out, and most voted for members of the NAP. The NAP increased its number of seats in the Majlis from 61 in 2005 to 74 in 2010.<sup>61</sup> The number of nominal independents also increased from 37 in 2005 to 39 in 2010. Nine minor parties won 12 seats, down from 20 in 2005. One opposition party candidate—İgbal Agazade of the Umid (Hope) Party—won a seat in the new Majlis. The Popular Front-Musavat bloc, which had won six seats in 2005 (as individual parties), won no seats in 2010. All winning parties except the Umid Party signed a statement proffered by the NAP declaring that the campaign and election represented progress in democratization. According to one report, about two-thirds of the deputies of the outgoing Majlis were reelected.

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<sup>59</sup> One local non-governmental organization (NGO) reported that there were myriad efforts by local officials and others to pressure citizens not to endorse the candidacy of oppositionists and to force prospective opposition candidates to drop out of the race. *Parliamentary Elections in the Republic Of Azerbaijan: Report on the Stage of Candidate Nomination and Registration*, Democracy Learning Public Union, October 22, 2010.

<sup>60</sup> CEDR, October 18, 2010, Doc. No. CEP-950077; October 14, 2010, Doc. No. CEP-950086; *Azerbaijan Press Agency*, October 13, 2010. On the Friedrich Naumann Foundation for Freedom, which sponsored the conference at which the parties signed the declaration of cooperation, see “Declaration of ELDR Member Parties in the South Caucasus,” at [http://www.freiheit.org/webcom/show\\_article.php?wc\\_c=617&wc\\_id=17117&wc\\_p=1](http://www.freiheit.org/webcom/show_article.php?wc_c=617&wc_id=17117&wc_p=1).

<sup>61</sup> The NAP won 56 seats on November 6, 2005, and 5 more seats in repeat elections held on May 13, 2006.

Many of the reelected and new members are officials or are related to current officials, according to this report.<sup>62</sup>

OSCE election monitors reported that the election was peaceful but “was not sufficient to constitute meaningful progress in the democratic development of the country.” It criticized “the deficient candidate registration process at the constituency level [that] led to the registration of ... less than half of the opposition candidates,” the “allocation of unsuitable campaign venues and prevention of political gatherings by opposition candidates outside of these areas,” and “last-minute changes in legislation” that greatly shortened the campaign period. The OSCE reported that “international observers assessed the voting process positively in almost 90% of the 1,100 polling stations (out of 5,175) visited by observers, whereas serious problems were noted in some 10%.” The serious problems cited included the lack of inking of fingers or checking for inking. However, the OSCE also reported that opening procedures were viewed negatively in 21% of polling places observed and that the vote count was viewed negatively in 31% of polling places observed.<sup>63</sup> The Election Monitoring and Democracy Studies Center, a local NGO, alleged that their monitors witnessed ballot-box stuffing in over one-fourth of polling places it covered.<sup>64</sup>

Ramiz Mehdiyev, the head of the presidential administration, hailed the election as a “triumph of democracy,” as viewed by most international observers, but stated that “the position of OSCE [election monitors] was of “a subjective nature.... To a certain extent, these [were] ideas voiced on the basis of certain directives.”<sup>65</sup>

Opposition Musavat Party head Isa Gambar alleged that only about 15% of voters had turned out and that massive vote fraud had occurred, while other members of his party speculated that the results were at least partly due to lack of party work at the local level outside of Baku.<sup>66</sup>

Addressing the newly elected NAP deputies just before the convocation of the Milli Majlis on November 29, 2010, President and NAP head Aliyev hailed the election as “held in a fully transparent and democratic manner,” and stated that “the Milli Majlis has a very important role and function in the contemporary development of Azerbaijan.... The parliamentary election shows once again that our citizens wish to see deserved representatives.... I hope that during next five years the Milli Majlis and certainly, its leading force, the New Azerbaijan Party, will contribute to the future development of our country.”<sup>67</sup> President Aliyev reappointed all of the members who held top posts in the previous legislature, including Oqtay Asadov, who was reappointed speaker. The three Reform bloc deputies (including the heads of the Great Creation and Justice parties and the United Popular Front of Azerbaijan) announced that they would form an Reform “opposition” faction in the legislature.

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<sup>62</sup> *Central Eurasia: Daily Report* (hereafter *CEDR*), Open Source Center, November 8, 2010, Doc. No. CEP-950216.

<sup>63</sup> OSCE, Office for Democratic Institutions and Human Rights, *International Election Observation, Republic of Azerbaijan, Parliamentary Elections, 7 November 2010, Statement of Preliminary Findings and Conclusions*, November 8, 2010.

<sup>64</sup> *Preliminary Statement on the Results of the Monitoring of the 7 November 2010 Elections to the Milli Majlis (Parliament) of the Republic of Azerbaijan*, Election Monitoring and Democracy Studies Center, November 8, 2010. See also the report of the Democracy Learning Public Union, a local NGO, *Parliamentary Elections in the Republic Of Azerbaijan: Report on the Stage of Candidate Nomination and Registration*, October 22, 2010.

<sup>65</sup> *CEDR*, November 17, 2010, Doc. No. CEP-950.

<sup>66</sup> *CEDR*, November 23, 2010, Doc. No. CEP-950130; *Azerbaijan Press Agency*, November 24, 2010.

<sup>67</sup> President of Azerbaijan, *Ilkham Aliyev Met With MPs of the Ruling Party Elected to the Milli Majlis*, November 29, 2010.

During in July 2010 visit to Azerbaijan, Secretary Clinton stated that the country had made “tremendous progress” in democratization since it gained independence and reported that the United States was providing democratization assistance to facilitate a free and fair legislative election in November 2010.<sup>68</sup> The U.S. Department of State issued a statement on November 8, 2010, just after the election, that while peaceful, the election “did not meet international standards.” The State Department remarked that the inclusion of record numbers of domestic observers and an increase in the number of female candidates were improvements over past elections, but reported that observers from the U.S. embassy witnessed “serious violations of election procedures, including ballot box stuffing.” The State Department urged that the Azerbaijani government “focus now on adjudicating election grievances fairly, transparently, and expeditiously [in order to ensure] accountability for officials who are suspected of interfering with the proper conduct of elections.”<sup>69</sup> The next day, the Azerbaijani Foreign Ministry criticized the State Department’s assessment, viewing it as less favorable than that issued by the OSCE. The Foreign Ministry claimed that the OSCE monitoring report, while noting some shortcomings, “show[ed that] the elections have gained the people’s confidence.”<sup>70</sup> On December 15, 2010, purportedly to discount some adverse Wikileaks press reports, Secretary Clinton reportedly called President Aliyev to reassure him that the United States continues to view Azerbaijan as its important strategic partner and is determined to deepen bilateral ties.

## Georgia

In his address at the U.N. General Assembly on September 23, 2008, President Saakashvili announced new democratization initiatives as a means to strengthen Georgia’s sovereignty and independence and thereby prevent Russia from subverting Georgia’s statehood. After lengthy attempts, President Saakashvili met with a few opposition leaders in April 2009 and again in May to discuss setting up a constitutional commission to work out changes to the political system. In June 2009, President Saakashvili formed the constitutional commission and the former president of the Constitutional Court, Avtandil Demetrashvili, was appointed chairman.<sup>71</sup> In his March 2010 state of the nation address, Saakashvili called for a new wave of democratic reforms.

Local elections to 64 city councils, as well as the first popular election of Tbilisi’s mayor, were held at the end of May 2010. Monitors from the OSCE reported that the elections “marked evident progress towards meeting OSCE and Council of Europe [democratization] commitments,” but that “significant remaining shortcomings include[d] deficiencies in the legal framework, its implementation, an uneven playing field, and isolated cases of election-day fraud.” Assistant Secretary of State Philip Crowley repeated the findings of the OSCE that the local elections showed progress in democratization, but that “significant shortcomings need to be addressed.”<sup>72</sup> The ruling NM won the majority of contests. The election was widely viewed as a

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<sup>68</sup> U.S. Department of State, *Hillary Rodham Clinton, Secretary of State, Joint Press Availability With Azerbaijani Foreign Minister Mammadyarov*, July 4, 2010.

<sup>69</sup> U.S. Department of State, *Press Statement: Parliamentary Elections in Azerbaijan*, November 8, 2010.

<sup>70</sup> *Azerbaijan Press Agency*, November 10, 2010.

<sup>71</sup> EIU, *Georgia Country Report*, June 4, 2009. Open Source Center. *Central Eurasia: Daily Report*, May 11, 2009, Doc. No. CEP-950119; May 18, 2009, Doc. No. CEP-950073; June 4, 2009, Doc. No. CEP-950186; June 8, 2009, Doc. No. CEP-950139.

<sup>72</sup> OSCE. ODIHR. *International Election Observation Mission Georgia — Municipal Elections, 30 May 2010: Statement of Preliminary Findings and Conclusions*, May 31, 2010. U.S. Department of State. *Daily Press Briefing*, June 2, 2010.

mandate for Saakashvili and as voter legitimization of the moderate opposition. The radical opposition, such as Nino Burjanadze's party Democratic Movement-United Georgia, appeared marginalized by their boycott of the races.<sup>73</sup>

In May 2010, the constitutional commission agreed on amendments to slightly reduce the power of the president and increases the powers of the legislature and prime minister. Under the amendments, the party that has the largest number of seats in the legislature will nominate the candidate for prime minister. The draft also proposes that regional governors be appointed by the prime minister rather than the president, as is currently the case. Public discussion of the draft amendments began in July 2010. The Venice Commission, an advisory body of the Council of Europe, raised concerns that the proposed presidential powers are still substantial relative to the prime minister and legislature, and that clashes between the president and prime minister could emerge. A citizen's group likewise complained that the legislature's powers remained weak and criticized the retention of gubernatorial appointments. In October 2010, the Georgian legislature approved the constitutional changes, which will take effect with the next presidential election scheduled for October 2013.<sup>74</sup>

## 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-FY2008 (the others are Russia, Ukraine, and Kazakhstan, which have received sizeable Comprehensive Threat Reduction funds; see **Table 1**). U.S. assistance to the region FY1992-FY2008 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 directed that humanitarian aid be provided to displaced persons and needy civilians in NK out of concern that otherwise the region might not get aid. This aid has amounted to about \$36 million from FY1998 through FY2010. See **Table 3**. In the Omnibus Appropriations Act for FY2009 (P.L. 111-8) and the Consolidated Appropriations Act for FY2010 (P.L. 111-117) up to \$8 million is made available for NK.<sup>75</sup> Actual aid to NK has been about \$2 million per year since FY2002. Aid has been provided to NGOs to rehabilitate homes, renovate health clinics and train personnel, repair water systems, provide micro-loans for agriculture, and clear landmines. Besides bilateral aid, the United States contributes to multilateral organizations such as the International Monetary Fund and the World Bank that aid the South Caucasus region.

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<sup>73</sup> Christofer Berglund, "Georgia's Local Elections: Revitalizing the Rose Revolution?" *CACI Analyst*, June 9, 2010.

<sup>74</sup> *CEDR*, September 6, 2010, Doc. No. CEP-964002; September 14, 2010, Doc. No. CEP-964028.

<sup>75</sup> Several Azerbaijani legislators protested the conference agreement to H.R. 3288 (P.L. 111-117) to direct up to \$8 million in humanitarian aid to NK. Some legislators and the Azerbaijani presidential administration reportedly suggested that such aid be shared with those who had fled the region. An Azerbaijani Foreign Ministry note to the State Department said that the aid "decreases confidence and trust toward the United States in Azerbaijan." *CEDR*, December 16, 2009, Doc. No. CEP-950112; December 20, 2009, Doc. No. CEP-95002; January 4, 2010, Doc. No. CEP-950063; *OSC Report*, January 12, 2010.

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) deemed that Georgia was eligible as a democratizing country for assistance, even though it did not meet criteria on anti-corruption efforts. In September 2005, MCC signed a five-year, \$295.3 million agreement (termed a “compact”) with Georgia 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. In the wake of the August 2008 Russia-Georgia conflict, the MCC announced plans for an extra \$100 million for road-building, water and sanitation facilities, and a natural gas storage facility. The MCC reported in April 2010 that it had so far disbursed \$203.7 million out of \$333 million of contract commitments to Georgia.

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 then-Foreign Minister Oskanyan that Armenia would address democratization shortfalls, the MCC and Armenia signed the compact, and it went into force in September 2006.<sup>76</sup> After the political turmoil in Armenia in March 2008, the MCC indicated that as an expression of its “serious concern,” it would halt contracting for road-building. In December 2008, the MCC Board reiterated its concerns about democratization progress in Armenia and decided to retain the suspension of some road work, while moving ahead on other projects. In June 2009, the MCC Board announced that it was cancelling \$67.1 million in funding for the road building project because of Armenia’s halting democratization, although other projects would continue.<sup>77</sup> The MCC reported in April 2010 that it had disbursed \$63.1 million out of \$143 million in contract commitments to Armenia.

## **U.S. Assistance After the Russia-Georgia Conflict**

To address Georgia’s urgent humanitarian needs in the wake of the August 2008 Russia-Georgia conflict, the U.S. Agency for International Development (USAID) and the Defense and State Departments provided Georgia with urgent humanitarian assistance. The Defense Department announced on September 8 that it had completed its naval and air delivery of these urgent humanitarian supplies to Georgia.

On September 3, 2008, then-Secretary of State Rice announced a multi-year \$1 billion aid plan for Georgia. The Administration envisaged that the proposed \$1 billion aid package would be in addition to existing aid and requests for Georgia, such as FREEDOM Support Act assistance. The added aid was planned for humanitarian needs, particularly for internally displaced persons, for

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<sup>76</sup> 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, at <http://www.mcc.gov>. See also Armenian Foreign Ministry. *Oskanyan Thanks MCC for Millennium Compact*, January 12, 2006, at <http://www.armeniaforeignministry.com>.

<sup>77</sup> U.S. Embassy in Yerevan. *Background Information on the Status of the MCA-Armenia Program*, December 16, 2008; MCC. *Press Release: MCC Board of Directors Meets to Address U.S. Government Global Development Priorities*, June 10, 2009.



the reconstruction of infrastructure and facilities that were damaged or destroyed during the Russian invasion, and for safeguarding Georgia's continued economic growth.<sup>78</sup>

Congress acted quickly to flesh out the Administration's aid proposals for Georgia. The Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (H.R. 2638/P.L. 110-329), signed into law on September 30, 2008, appropriated an additional \$365 million in aid for Georgia and the region (beyond that provided under continuing appropriations based on FY2008 funding) for humanitarian and economic relief, reconstruction, energy-related programs and democracy activities. Of that amount, \$315 million was actually budgeted for Georgia. The Supplemental Appropriations Act for FY2009 (P.L. 111-32; signed into law on June 24, 2009) provided an additional \$242 million in Freedom Support Act assistance to Georgia, "the final portion of the \$1 billion pledge." See **Table 3**.<sup>79</sup>

## U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after September 11, 2001. Gen. Bantz Craddock, then-Commander of the U.S. European Command (EUCOM) testified in March 2009 that the "Caucasus is an important area for the United States and its partners. Caucasus nations actively support Operation Iraqi Freedom and ISAF by providing both with troops and land and air access for critical supply lines from EUCOM to the CENTCOM area of responsibility. They provide alternative energy sources from the Caspian Sea basin and alternative routes of access to Central Asian energy reserves. It is an important region for European energy diversification."<sup>80</sup>

EUCOM initiatives in the region have included the Sustainment and Stability Operations Program (SSOP) in Georgia, the South Caucasus Clearinghouse, and the Caspian Regional 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).<sup>81</sup> 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, including \$6.5 million in Section 1206 funds to help Georgia with equipment and operations in Iraq.<sup>82</sup> SSOP was again extended in FY2008 and funded at \$71 million, including \$11.5 million in Section 1206 funds for special forces training and equipment. Prior to the Russia-Georgia conflict, the U.S. was providing initial military training to Georgia's

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<sup>78</sup> U.S. Department of State. Secretary Condoleezza Rice. Remarks On U.S. Economic Support Package for Georgia, September 3, 2008; Briefing On U.S. Economic Support Package for Georgia, September 3, 2008.

<sup>79</sup> U.S. Senate. Committee on Foreign Relations. Subcommittee on Europe. Hearing on Georgia: One Year After the August War. *Statement of S. Ken Yamashita, Acting Assistant Administrator for the Bureau for Europe and Eurasia, United States Agency for International Development*, August 4, 2009.

<sup>80</sup> U.S. House of Representatives. Committee on Armed Services. *Testimony by Gen. Bantz J. Craddock*, March 24, 2009. See also CRS Report RL30679, *Armenia, Azerbaijan, and Georgia: Security Issues and Implications for U.S. Interests*, by Jim Nichol.

<sup>81</sup> 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.

<sup>82</sup> "U.S. Allocates \$30 mln for SSOP Army Training Program," *Civil Georgia*, July 17, 2006.

4<sup>th</sup> Brigade for its eventual deployment to Iraq in Winter 2008.<sup>83</sup> U.S. training for 730 troops for deployment to Afghanistan was launched in late August 2009 using \$24 million in Coalition Readiness Support Program (CRSP) funds, and included an October 2009 bilateral training exercise termed “Immediate Response.”

The Clearinghouse aims to facilitate cooperation by sharing data on security assistance among both donor and recipient countries. Gen. Craddock testified in March 2008 that the Caspian Regional Maritime Security Cooperation program aims to “coordinate and complement U.S. government security cooperation activities in Azerbaijan and Kazakhstan. U.S. Naval Forces Europe continues to promote Maritime Safety and Security and Maritime Domain Awareness in the Caspian Sea through routine engagement with Azerbaijan. These efforts are targeted to create an organic ability within Azerbaijan to ‘observe, evaluate, and respond’ to events in their maritime domain.”<sup>84</sup> (This program appears to combine elements of the former Caspian Guard and Hydrocarbons programs.) In FY2008, \$1.7 million in Section 1206 funds were supplied for naval counter-terrorism training for Azerbaijan. The United States acknowledged in late 2005 that it had supplied two maritime surveillance radars to Azerbaijan to help detect and direct interdiction of illicit weapons of mass destruction and other trafficking in the Caspian Sea.<sup>85</sup>

In the wake of the August 2008 Russia-Georgia conflict that severely damaged Georgia’s military capabilities, Gen. Craddock visited Georgia on August 21 to survey the destruction of infrastructure and military assets. According to Assistant Secretary of Defense Vershbow, EUCOM carried out a “comprehensive multi-month assessment of Georgia’s Armed Forces.” In October 2008, the Defense Department also held yearly bilateral defense consultations with Georgia. Vershbow testified that as a result of these assessments, “many previously unrecognized or neglected deficiencies in the various required capacities of the Georgian Armed Forces and Ministry of Defense [came to light]. In practically all areas, defense institutions, strategies, doctrine, and professional military education were found to be seriously lacking.”<sup>86</sup>

In March 2009, Gen. James Cartwright, the Vice Chairman of the Joint Chiefs of Staff, visited Georgia to further assess its defense needs. He stated that “the United States remains committed to the U.S.-Georgia charter on strategic partnership and to provide training and other assistance to the Georgian military in support of their reform efforts and continued independence.” He pledged added training that would be “focused on the defense of Georgia, on its self and internal defense,” and equipment transfers that would be based on “what equipment needs to be upgraded and then what new types of equipment that are necessary for their homeland defense.”<sup>87</sup> Assistant Secretary Vershbow similarly testified in August 2009 that “we are focusing on building defense institutions, assisting defense sector reform, and building the strategic and educational

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<sup>83</sup> Senate Armed Services Committee. Hearing on the Georgia-Russia Crisis: Implications and U.S. Response. *Testimony of Eric S. Edelman, Under Secretary of Defense for Policy*, September 9, 2008.

<sup>84</sup> U.S. Senate. Committee on Armed Services. *Statement of General Bantz J. Craddock*, March 13, 2008.

<sup>85</sup> “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.

<sup>86</sup> U.S. Senate. Committee on Foreign Relations. Subcommittee on Europe. Hearing on Georgia: One Year After the August War. *Testimony of Alexander Vershbow, Assistant Secretary of Defense for International Security Affairs*, August 4, 2009.

<sup>87</sup> Air Force Master Sgt. Adam Stump, “U.S., Georgia to Continue Strategic Partnership,” *American Forces Press Service*, March 31, 2009; *CEDR*, March 30, 2009, Doc. No. CEP-950352; Giorgi Lomsadze, “Georgia: Pentagon to Start Military Training Program,” *Eurasia Insight*, March 30, 2009.

foundations that will facilitate necessary training, education, and rational force structure design and procurement. We are assisting Georgia to move along the path to having modern, western-oriented, NATO-interoperable armed forces capable of territorial defense and coalition contributions.”<sup>88</sup> He stressed, however, that “the United States has not ‘rearmed’ Georgia as some have claimed. There has been no lethal military assistance to Georgia since the August [2008] conflict. No part of the \$1 billion U.S. assistance package went to the Ministry of Defense.”<sup>89</sup>

Some in Congress and elsewhere have criticized this dearth of lethal security assistance to bolster Georgia’s territorial defense capabilities.<sup>90</sup> In response to a letter from Senator Richard Lugar questioning U.S. administration policy, Assistant Secretary of State Richard Verma stated that security assistance and military engagement with Georgia was focused on “defense assistance covering doctrine, personnel management, education, and training to support Georgia defense reform and modernization along Euro-Atlantic lines,” and on training and equipment for Georgian infantry forces bound for Afghanistan. The former defense assistance, he averred, “has not contained substantial military equipment to date,” and “all requests for defense cooperation and arms transfers to Georgia” are assessed in line with this policy stress on training and technical advice.<sup>91</sup> Although President Saakashvili seemed to indicate during Secretary Clinton’s July 2010 visit that U.S. security cooperation with Georgia was adequate, he stated in September 2010 that “leaving Georgia defenseless doesn’t help the situation. Georgia cannot attack Russia, while a defenseless Georgia is a big temptation for Russia to change our government through military means.... As part of ongoing security cooperation, we hope that the U.S. will help us with defense-weapons capabilities.”<sup>92</sup> On December 12, 2010, U.S. Senator John McCain called for the Obama Administration to resume some defensive arms transfers to Georgia, including early warning radars. Three days later, Giorgiy Baramidze, the Georgian deputy prime minister and state minister for Euro-Atlantic integration, also called for the United States to resume the transfer of defensive weapons to Georgia.

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.

- Troops from all three regional states served as peacekeepers in the NATO Kosovo Force (KFOR).
- All three regional states have deployed troops to support the International Security Assistance Force (ISAF) in Afghanistan.

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<sup>88</sup> Vershbow, August 4, 2009.

<sup>89</sup> U.S. Senate. Committee on Foreign Relations. Subcommittee on Europe. Hearing on Georgia: One Year After the August War. *Testimony of Alexander Vershbow, Assistant Secretary of Defense for International Security Affairs*, August 4, 2009.

<sup>90</sup> U.S. Senate. Committee on Foreign Relations. *Striking The Balance: U.S. Policy And Stability In Georgia, a Report to the Committee on Foreign Relations*, S. PRT. 111–37, December 22, 2009; Joshua Kucera, “Georgia: Senate Staff Report Stokes Unease in the Caucasus,” *Eurasia Insight*, January 5, 2010.

<sup>91</sup> Letter from Assistant Secretary of State Richard Verma to the Honorable Richard Lugar, March 25, 2010.

<sup>92</sup> Jerry Guo, “Russia’s Occupation Won’t Last,” *Newsweek*, September 12, 2010.

Although the United States 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.<sup>93</sup> A MAP for Georgia was a matter of contention at the April 2008 NATO Summit. Although Georgia was not offered a MAP, the Alliance pledged that Georgia would eventually become a member of NATO, and stated that the issue of a MAP for Georgia would be revisited later in the year.<sup>94</sup>

After the August 2008 Russia-Georgia conflict, several allies raised heightened concerns that Georgia was not ready to be granted a MAP because of the destruction of much of its military infrastructure by Russia, the uncertain status of the breakaway regions, and the uncertain quality of conflict decision-making by Georgia's political and military leadership. At a NATO foreign ministers' meeting in early December 2008, the allies agreed to step up work within the Georgia-NATO Council (established soon after the Russia-Georgia conflict) to facilitate Georgia's eventual NATO membership, and to prepare annual plans on Georgia's progress toward eventual membership. The first annual national plan was worked out during meetings of the Georgia-NATO Council and started to be implemented in May 2009.

The U.S. Congress approved the NATO Freedom Consolidation Act of 2007, signed into law in April 2007 (P.L. 110-17), to urge NATO to extend a MAP for Georgia and to designate Georgia as eligible to receive security assistance under the program established by the NATO Participation Act of 1994 (P.L. 103-447).

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. The *Congressional Budget Justification for Foreign Operations for FY2011* calls for \$3.5 million in FMF for each country, but for \$450,000 for IMET for Armenia and \$900,000, for Azerbaijan.

## U.S. Trade and Investment

The former Bush Administration and others have maintained 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.

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<sup>93</sup> NATO. North Atlantic Council. *Riga Summit Declaration*, November 29, 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.

<sup>94</sup> See also CRS Report RL34701, *NATO Enlargement: Albania, Croatia, and Possible Future Candidates*, by Vincent Morelli et al.

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.

Georgia long has raised objections to Russian membership in WTO. Georgia has called for Russia to lift the economic sanctions it began to impose on Georgia in 2006 as one condition for Georgia's agreement to WTO membership for Russia. In October 2010, Georgia's first deputy foreign minister, Giorgiy Bokeria, also asserted that Russia must reach a deal with Georgia over customs control posts along Russia's borders with Abkhazia and South Ossetia that are inaccessible to Georgian officials before Georgia supports WTO membership for Russia. As a compromise measure, Georgia has proposed to Russia that the two states operate joint customs controls along the internationally recognized borders. Russia has rejected this stance, asserting that Abkhazia and South Ossetia are no longer part of Georgia.

## **Energy Resources and U.S. Policy**

The U.S. Energy Department reports estimates of 7 billion barrels of proven oil reserves, and estimates of 30 trillion cubic feet of proven natural gas reserves in Azerbaijan.<sup>95</sup> Critics argue that oil and gas from Azerbaijan will amount to a tiny percent of world exports of oil and gas, but successive U.S. administrations have argued that these exports would nonetheless boost energy security somewhat for European customers currently relying on Russia.

U.S. energy strategy in Eurasia aims to encourage the development of new oil and gas resources; promote efficiency and conservation; assist Europe in boosting its energy security; and help Caspian regional states develop new export routes, so that they "can increase competition for their resources and demand a higher price," according to Richard Morningstar, the Special Envoy for Eurasian Energy. He testified to Congress in July 2009 that the strategy may be summed up as focusing on increasing the "diversity of suppliers, diversity of transportation routes, and diversity of consumers." He denied that the strategy is aimed against Russia, but endorsed the building of regional export pipelines that compete with those proposed by Russia, including the EU-backed "southern corridor to bring Caspian natural gas to Europe" (see below).<sup>96</sup> According to this strategy, the construction of such pipelines will bolster the strategic importance to the West of stability and security in the Caspian region.<sup>97</sup>

Ambassador Morningstar has argued that Azerbaijan will be able to supply at least some if not most of the needed gas for both the TGI and the first phase of the Nabucco pipeline. In March 2007, Azerbaijan and the United States signed a memorandum of understanding on energy cooperation that called for discussions on the proposed TGI and Nabucco gas pipelines. In August 2007, the U.S. Trade Development Administration granted Azerbaijan \$1.7 million to fund

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<sup>95</sup> U.S. Energy Department. Energy Information Administration. *Azerbaijan: Country Analysis Brief*, October 2009.

<sup>96</sup> U.S. Senate. Committee on Foreign Relations. Hearing on Instability, Terrorism, and Economic Disruption in Relation to Oil. *Testimony by Richard Morningstar, Special Envoy for Eurasian Energy*, July 16, 2009.

<sup>97</sup> Sedat Laciner, "Turkey's Pipeline Politics," *The Journal of Turkish Weekly Online*, International Strategic Research Organization, September 16, 2009.

feasibility studies on building both an oil and a gas pipeline across the Caspian Sea to link Central Asia to the BTC pipeline and the SCP.

### **Building the Baku-Tbilisi-Ceyhan and South Caucasus Pipelines**

During the Clinton Administration, the United States in 1995 encouraged the building of one small oil pipeline (with a capacity of about 155,000 barrels per day) from Azerbaijan to the Georgian Black Sea port of Supsa as part of a strategy of ensuring that Russia did not monopolize east-west export pipelines. As part of this strategy, the United States also stressed building the Baku-Tbilisi-Ceyhan (BTC) pipeline (with a capacity of about 1 million barrels per day) as part of a "Eurasian Transport Corridor." In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on construction of the 1,040-mile long BTC oil pipeline. In August 2002, the BTC Company (which includes U.S. firms Conoco-Phillips, Amerada Hess, and Chevron) was formed to construct, own, and operate the oil pipeline. The first tanker on-loaded Azeri oil at Ceyhan at the end of May 2006. The BTC Company reported in September 2010 that the BTC pipeline had transported one billion barrels of oil to Ceyhan since 2006. Reportedly, some Azerbaijani oil reaches U.S. markets.

A gas pipeline from Azerbaijan to Turkey (termed the South Caucasus Pipeline or SCP) was completed in March 2007. Exports to Georgia, Turkey, and Greece were 53 billion cubic feet of gas in 2007, more than 160 billion cubic feet in 2008, 184 billion cubic feet in 2009, and 162 billion cubic feet in January through November 2010. The ultimate capacity of the SCP is about 706 billion cubic feet per year, according to British Petroleum. 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 the BTC and SCP pipelines.

The August 2008 Russia-Georgia conflict did not result in physical harm to the BTC pipeline or the SCP. The BTC pipeline was closed due to other causes. The SCP and the small Baku-Supsa oil pipeline were closed temporarily as a safety precaution. Russian gas shipments via Georgia to Armenia decreased in volume for a few days at the height of the conflict. Rail shipments of oil by Azerbaijan to the Kulevi oil terminal (owned by Azerbaijan) on Georgia's Black Sea coast were disrupted temporarily.

At the end of October 2008, the first oil from Kazakhstan started to be pumped through the BTC pipeline. Reportedly, about 70,000 barrels per day of Kazakh oil is being barged across the Caspian Sea to the BTC pipeline. In addition, some Kazakh oil is barged to Azerbaijan to be shipped by rail to Georgia's Black Sea port of Batumi. Kazakhstan plans to increase its shipments to Azerbaijan to 500,000 barrels per day by 2012. Some Turkmen oil began to be transported through the BTC pipeline in June 2010.

Some observers argue that the completion of the BTC and SCP boosted awareness in the European Union and the United States of the strategic importance of the South Caucasus.<sup>98</sup> In mid-November 2007, Greek Prime Minister Kostas Karamanlis and Turkish Prime Minister Recep Tayyip inaugurated a gas pipeline connecting the two countries. Since some Azerbaijani gas

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<sup>98</sup> 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.

reaches Greece, the pipeline represents the first gas supplies from the Caspian region to the EU. If a pipeline extension is completed to Italy, this TGI gas pipeline could permit Azerbaijan to supply gas to two and perhaps more EU members, providing a source of supply besides Russia.

The Nabucco pipeline has faced numerous delays, some of them attributable to Russia's counter-proposals to build pipelines that it asserts would reduce the efficacy of the Nabucco pipeline and to questions about supplies for the pipeline. In early September 2010, the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank announced a commitment—pending environmental and social feasibility studies—to provide \$5.2 to build the Nabucco pipeline. Latest EU planning calls for construction of the 1.1 tcf-capacity Nabucco pipeline to begin in 2012 and for shipments to begin in 2015.

At a meeting in early May 2009 in Prague, the EU, Azerbaijan, Georgia, Turkey, and Egypt signed a declaration on a "Southern [energy] Corridor" to bolster east-west energy transport. The declaration called for cooperation among supplier, transit, and consumer countries in building the Nabucco gas pipeline, finishing the Italian section of the TGI gas pipeline, and other projects. Richard Morningstar, the U.S. Special Envoy for Eurasian Energy, stated that the Obama Administration supported the "Southern Corridor" program and endorsed an EU proposal to consider forming a private "Caspian Development Corporation" to assist Turkmenistan in developing gas fields and pipelines to transport Turkmen gas across the Caspian.<sup>99</sup>

One difficulty hindering construction of Nabucco appeared to be worked out in late June 2009, when the EU announced that it had reached an agreement with Turkey and the members of the Nabucco consortium that permitted Turkey to drop its demand for the right to 15% of the natural gas pumped through the link at preferential prices, reportedly in return for some assurances on the security of supplies. An intergovernmental agreement on transit arrangements for Nabucco was signed in Turkey by five countries on July 13, 2009.

In 2009, Azerbaijan stepped up its efforts to diversify the routes and customers for its gas exports beyond the SCP and the planned Nabucco route. President Aliyev attributed some of this increased interest in added gas export routes—including to Russia and Iran—to the country's difficult negotiations with Turkey over gas transit fees and prices (excluding the agreed-upon arrangements for Nabucco).<sup>100</sup> In October 2009, Azerbaijan's State Oil Company (SOCAR) and Russia's Gazprom gas firm signed agreements that SOCAR would supply 17.7 billion cubic feet of gas per year to Russia beginning in 2010. The gas would be transported by a 140-mile gas pipeline from Baku to Russia's Dagestan Republic that was used until 2007 to supply Azerbaijan with up to 282.5 billion cubic feet of gas per year. During a visit by President Medvedev to Azerbaijan in September 2010, the two countries agreed that Azerbaijan would provide up to 35.4 billion cubic feet of gas per year beginning in 2011 (this increase had been under consideration since the signing of the 2009 accord). President Aliyev stressed that this small supply agreement

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<sup>99</sup> U.S. Department of State. *Press Release: Remarks at the EU Summit "Southern Corridor-New Silk Road,"* May 8, 2009.

<sup>100</sup> Vladimir Socor, *Eurasia Daily Monitor*, October 21, 22, 29, 2009; "SOCAR and Gazprom Sign Small But Strategic Gas Supply Deal," *Global Insight*, June 30, 2009; Jennifer DeLay, "Bolstering the Case for Nabucco: Germany's RWE is Working to Resolve Doubts About the Nabucco Project's Access to Funding and Gas Supplies and about Competition from Other Gas Pipelines," *FSU Oil and Gas Monitor*, December 9, 2009.

would not jeopardize plans to supply gas for Nabucco, since Azerbaijan possessed huge gas reserves.<sup>101</sup>

As another alternative to gas shipments through Turkey, Azerbaijan, Romania and Georgia signed a memorandum of understanding in April 2010 to transport liquefied natural gas (LNG) from Azerbaijan to the EU through Georgia and Romania. This Azerbaijan-Georgia-Romania-Interconnection (AGRI) project envisions the construction of a gas pipeline from Azerbaijan to the Georgian port of Kalevi, where the gas will be liquefied, shipped across the Black Sea, and regasified at the Romanian port of Constanta. The output is expected to be 247 billion cubic feet per year, with 71 billion cubic feet of the gas used by Romania and the rest by other EU countries. The presidents of the three countries (and the prime minister of Hungary, which joined the project) met in Baku on September 15, 2010, to sign the Baku Declaration of political support for the project. President Aliyev argued that the AGRI project would not make Nabucco less feasible.

Some of the tensions between Turkey and Azerbaijan involving energy issues appeared resolved in June 2010, during President Aliyev's visit to Turkey, when the two countries signed accords on the sale and transportation of Azerbaijani natural gas to Turkey and to other countries via Turkey. A memorandum of understanding permitting Azerbaijan to conclude direct sales with Greece, Bulgaria, and Syria involving gas transiting Turkey was signed. Many observers viewed the MOU as increasing the feasibility of the TGI and Nabucco pipelines.<sup>102</sup>

Some analysts raise concerns that there will not be enough Azerbaijani gas to fill the TGI and Nabucco pipelines (deliveries will be 406 billion cubic feet per year for TGI and 158 to 459 billion cubic feet per year for Nabucco) and to provide for the AGRI project without a trans-Caspian gas pipeline or participation by Iran or Iraq.<sup>103</sup> Others suggest that Azerbaijan will be able to supply at least most of the needed gas for both the TGI and Nabucco pipelines and the AGRI project, because of recent promising indications that there may be a huge new reservoir of gas off the Caspian seacoast. It is possible that the Nabucco pipeline will be completed before much Azerbaijani gas is available, so that alternative gas supplies will be needed in the interim if not in addition.

## **Regional Energy Cooperation with Iran**

On March 19, 2007, Armenia's then-President Robert Kocharyan and Iranian President Mahmoud Ahmadinejad inaugurated an 88-mile gas pipeline from Tabriz in Iran to Kadjaran in Armenia. Work was completed on the second section of the pipeline, a 123 mile section from Kadjaran to Ararat, in December 2008. The Russian-controlled ArmRosGazprom joint venture built this second section and operates the pipeline. Initial deliveries reportedly are 10.6-14.1 billion cubic feet of gas per year, with plans for more gas deliveries in future years. Some of this gas will be used to generate electricity for Iran and Georgia, but the remainder eventually may satisfy all Armenia's consumption needs, alleviating its dependence on Russian gas transported via Georgia.<sup>104</sup>

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<sup>101</sup> CEDR, September 6, 2010, Doc. No CEP-950267.

<sup>102</sup> "Azerbaijan to Move Quickly to Negotiate Sales of Gas to Europe," *Oil Daily*, June 14, 2010.

<sup>103</sup> U.S. Department of State. *Transcript: U.S. Official Discusses Energy Security Agreement with Azerbaijan*, March 22, 2007; Associated Press, June 6, 2007.

<sup>104</sup> *Platt's Commodity News*, May 31, 2007.



At the end of 2005, Azerbaijan began sending about 7 billion cubic feet of gas per year through a section of Soviet-era pipeline to the Iranian border at Astara, partly in exchange for Iranian gas shipments to Azerbaijan's Nakhichevan exclave. On November 11, 2009, Azerbaijan signed an accord with Iran to supply 17.7 billion cubic feet of gas annually through the pipeline. These gas supplies could increase in coming years.

**Table I. U.S. Foreign Aid to the South Caucasus States,  
FY1992 to FY2010, and the FY2011 Request**  
(millions of dollars)

<b>South Caucasus Country</b>	<b>FY1992-FY2008 Budgeted Aid<sup>a</sup></b>	<b>FY2009 Actual<sup>b</sup></b>	<b>FY2010 Estimate<sup>b</sup></b>	<b>FY2011 Request<sup>b</sup></b>
Armenia	1,821.17	52.357	45.6	45.2
Azerbaijan	832.24	25.835	28.115	29.285
Georgia	2,108.23	311.817	320.95	90.085
<b>Total</b>	<b>4,761.64</b>	<b>390.009</b>	<b>394.665</b>	<b>164.57</b>
Percent	13.6	50	46	27

**Sources:** State Department, *Congressional Budget Justification for Foreign Operations for FY2011*, March 2010.

- a. Assistance to Europe, Eurasia, and Central Asia (AEECA) and Agency budgets.
- b. AEECA and other "Function 150" funds. Does not include Defense or Energy Department funding, funding for exchanges, Peace Corps, or Millennium Challenge Corporation programs in Armenia and Georgia.

**Table 2. U.S. Humanitarian Assistance to Nagorno Karabakh**  
(million dollars)

Year	Obligated
1998	8.3
1999	3.5
2000	2.0
2001	4.0
2002	2.0
2003	1.987
2004	2.0
2005	2.0
2006	1.98
2007	2.0
2008	2.0
2009	2.003
2010	2.0
Total	35.77

**Source:** Source: State Department. Office of the Coordinator of U.S. Assistance to Europe and Eurasia.

**Table 3. The \$1 Billion in Added Aid to Georgia by Priority Area**  
(millions of dollars)

Area	Level
Restoring Peace and Security	47.577
Strengthening Democracy, Governance, and the Rule of Law	48.1
Economic Recovery and Growth	466.64
Aid to Internally Displaced Persons and Social Recovery	185.683
Management Support	5.5
Direct Budget Support	250.0
Total Committed or Expended	1003.5

**Source:** U.S. Senate. Committee on Foreign Relations. Subcommittee on Europe. Hearing on Georgia: One Year After the August War. *Statement of S. Ken Yamashita, Acting Assistant Administrator for the Bureau for Europe and Eurasia, United States Agency for International Development, August 4, 2009*; USAID. *Completion of the \$1 Billion Pledge*, February 5, 2010.

Figure I. Map of Caucasus Region



Source: CRS

Notes: Administrative borders of the former Nagorno Karabakh Autonomous Region

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