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Political Analysis Report

**The European Union and the South Caucasus.
The Role of Azerbaijan**

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The European Union and the South Caucasus. The Role of Azerbaijan

In the period 28 April – 1st of May 2008, Mr. Adrian Severin, Member of the European Parliament and Director Coordinator of the Ovidiu Sincai Institute, made a visit to Azerbaijan, at the invitation H. E. Mr. **Eldar Hasanov**, Ambassador of Azerbaijan in Bucharest. During the visit, Mr. Adrian Severin attended the International Conference *GUAM-Transit* and had official meetings with H. E. Mr. **Elmar Mammadyarov**, Minister of Foreign Affairs of Azerbaijan, H. E. Mr. **Novruz I. Mammadov**, Head of the Foreign Relations Department of the Office of the President of the Republic of Azerbaijan, Mr. **Samad I. Seydov**, President of the Foreign and Inter-Parliamentary Relations Committee of the Azerbaijan Republic Parliament and Head of the National Delegation to the Parliamentary Assembly of the Council of Europe, Mr. **Araz Azimov**, First Deputy of the Minister of Foreign Affairs, Mr. **Emil Majidov**, President of the Azerbaijan Export & Investment Promotion Foundation (*Azpromo*), Mr. **Nizami Bahmanov**, Head of the National Union of the Azeri Community of Nagorno-Karabakh and Mr. **Rasim Bakhshi**, Baku Representative of the Forum of Azerbaijani Students in Europe (*FASE*). Also, some cultural local objectives from Baku, belonging to the Azeri population and to some religious minorities, were visited.

Following these meetings some interesting elements have resulted regarding the development perspectives of the relations between the European Union and Azerbaijan and for the resolution of existing disputes of the South Caucasus area.

1. Internal Situation of Azerbaijan

a. Political Situation

The Republic of Azerbaijan is a young state which declared its independence on 30 August 1991. However, even before this date, the Azeri state had been shortly independent *de facto*, between 1918 and 1920, before being swallowed by Soviet Russia. The present state situation dates from the Soviet period, on the basis of the former Soviet Socialist Republic of Azerbaijan, founded in 1936 as a component part of the Soviet Union.

A secular state with an Azeri ethnic majority (93.4%), out of which 85% are Shi'a Muslims (79.4% of the total population), Azerbaijan has a surface of 86.600 sq km. Nevertheless, no less than 14% of this surface is under Armenian occupation, following the Nagorno-Karabakh region conflict from the period 1988-1994. The situation remained unchanged until the present day.

From a political point of view, Azerbaijan is a presidential republic, according to the Constitution of 12 November 1995. The president is elected by direct universal suffrage for a five year mandate, which can be renewed once. The president appoints the Council of Minister, including the Prime Minister, an

executive organ which is subordinated to him. Although he has not the right to dissolve the parliament, the Azeri president can oppose any of the latter's decisions, with the exception of cases when the decision was adopted by a 95 votes majority (from a total of 125).

The parliament, called National Assembly (*Milli Mejlis*), represents the legislative power and is made up of members elected by the citizens through direct ballot for a five year mandate. Presently, the most important political party is the New Azerbaijan Party, led by the acting president, Ilham Aliyev, which hold 58 parliamentary mandates, followed by the Freedom Coalition, made up of the Popular Front Party, of Euro-Atlantic orientation, the Liberal Party and the Citizens Development Party, holding together 8 mandates, the Civic Solidarity Party with 2 mandates and the Motherland Party, of nationalist orientation, with 2 mandates. Apart from these groupings, there are also nine small parties in the parliaments, each holding one place but also a number of 42 independent MPs close to the presidential party.

The judicial power is represented by the Constitutional Court, the High Court of Justice and the Economic Court. Judges of these institutions are appointed and revoked by the president.

The last legislative took place on 6 November 2005 and have been monitored by several international organizations and European institutions, such as the European Parliament, the Parliamentary Assembly of the Council of Europe, the OSCE Parliamentary Assembly and the Office for Democratic Institutions and Human Rights (ODIHR).

Following the elections monitoring some progress was witnessed compared to preceding ballots, such as free access to public media for all candidates, the possibility of the opposition to organize electoral rallies, regulation of the voting process, votes counting and registration, adequate functioning of electoral commissions and of the Constitutional Court, the introduction of new identity documents, the right of NGOs to monitor the elections. At the same time, though, some problems were highlighted leading to the general conclusion that the elections failed to meet assumed OSCE and Council of Europe standards. Among these problems were: the partisan involvement of local authorities in the electoral campaign in favour of governmental candidates, refusal to authorize some electoral rallies of the opposition, arresting some opposition sympathizers and candidates, the misbalanced composition of electoral commissions, pressures over an independent TV channel to limit access of voters to certain information, unregulated use of voter cards, composition of voter lists¹. The next (presidential) elections will take place on 15 October 2008.

¹ International Election Observation Mission, *Parliamentary Election – Republic of Azerbaijan – 6 November 2005. Statement of Preliminary Findings & Conclusions*, OSCE/ODIHR, PACE, OSCE PA, European Parliament, NATO PA, p. 2

b. Economic and Social Situation

From an economic point of view, Azerbaijan can be considered one of the emerging “economic tigers”. Due to massive oil exports the rate of economic growth (of the GDP) from the last years has been constantly over 30%, with 37% in 2006 and 31% in 2007, the highest growth rate in the world. In spite of a brief decrease in the oil production recorded in 1997, the extractive industry has continuously developed, allowing for a significant exploitation of resources in the Caspian Sea region. Beside exports, the Azeri state has signed concession agreements with some foreign companies (mainly with *British Petroleum*), especially in view of building the Baku-Ceyhan (Turkey) pipeline, allowing to pump 1 million barrels daily (starting with 2006) towards the harbour at the Mediterranean Sea. It is estimated that revenues of this last project will double the country’s GDP until 2010.

From the point of view of the business environment measures have been taken to consolidate the free market and replace old centralized state structures. Only 20% of the Azeri economy is still owned by the state. Nevertheless, the state maintains even at present the control over the oil industry, mainly through the company SOCAR (*State Oil Company of Azerbaijan Republic*). The level of foreign investments has reached (in 2007) approximately 27% of the GDP value.

On the other hand, the other industrial sectors have not enjoyed a development comparable to the extractive industry (whose growth rate is equal with the rate of economic growth). In the agriculture this is justified due to the fact that one third of the crop surface of the country is under foreign occupation. Despite this, Azerbaijan produces important quantities of cotton, raisins, rice, tea and tobacco. The problems also concern a pretty high inflation rate (16%) and the concerning level of the administrative corruption.

From a commercial point of view, the main partners of Azerbaijan are Italy, Israel, Turkey, France and Russia (for exports) and Russia, Great Britain, Germany, Turkey and Turkmenistan (for imports). Azerbaijan exports oil and natural gas (90% of the total), cotton and food products and imports equipments and tools, oil products, metal devices, chemistry products and processed food products. The commercial balance is excedentary (the value of imports represents 33% of the value of exports). The external debt of the country amounts for approximately 2,02 billion US dollars.

From a social point of view, although the value of per capita GDP (purchasing power parity) is around 9,000 US dollars, the percentage of population living under the poverty line is 24%. Also, the unemployment rate is around the value of 8.5%. A large part of the labour force is involved in agriculture (41%), most part being though involved in services (52%), with a small percentage involved in the industry (7%, in spite of the supremacy of this sector within the GDP – 46%). At the same time, the Gini index, expressing the degree of inequality in the revenues distribution, is at an average of 36,5 (42nd in the world out of 98 countries in 2006). Life expectation at birth is 62 years for men and 71

years for women. At the same time, the population growth rate is around the impressive figure of 1% per year, which entails a remarkable demographic potential.

c. Foreign Relations

At international level, Azerbaijan is a UN member state, starting with 2nd March 1992 (with its entire territory, including Nagorno-Karabakh and the other territories occupied by Armenia), founding member of the Commonwealth of Independent States (21 December 1991, with the exception of the military component), member of OSCE (since 30 January 1992), founding member of the Black Sea Economic Cooperation (25 June 1992), member of the Partnership for Peace (since 10 February 1995), the Council of Europe (since 25 January 2001), founding member of the GUAM Organization for Democracy and Economic Development (7 June 2001), the Organization of the Islamic Conference (since 1991) and observer member within the World Trade organization and the Non-Alignment Movement.

The main international issue of Azerbaijan was the conflict with Armenia in the Nagorno-Karabakh region, which hindered the immediate plans of development of the Baku administration. After a short period in which the domestic uncertainty led to military failures and the loss of 20% of the country's territory and the displacement of almost 1 million Azeris from the occupied areas, in 1994 a ceasefire agreement was signed which maintained the status-quo (unfavourable to Azerbaijan), in spite of favourable but inconsistent resolutions of international organizations.

The signature of advantageous contract for exploiting the country's oil resources and the discovery of natural gas fields in the Caspian Sea area, at the end of the 90s, created the perspectives for an accelerated economic development. The good relation with Turkey, which is a kin state, was an important asset, as Turkey is at the same time a strategic partner, a commercial outlet and a transit area for the country's resources to the west. This was made possible also by the good relations with Georgia (partner country within GUAM) which offered the necessary transit routes (as the common Turkish-Azeri border is only 11 km long and is situated in the area of the Nakhichevan enclave, a fact that does not facilitate transit). The main routes are Baku-Tbilisi-Ceyhan for oil) and Baku-Tbilisi-Erzurum (for natural gas).

The relation with Russia went around normal coordinates, in spite of the latter's constant support for Armenia, especially during the Armenian-Azeri conflict. Azerbaijan was one of the former Soviet republics that have joined among the first to the Commonwealth of Independent States (CIS), but did not involve too much in the activities of this organization, trying to emancipate from the traditional Russian domination. This was made possible by the natural resources which made Azerbaijan a serious competitor for Russia on the specialized international markets.

The relations with Iran were maintained at a cordial level, especially due to the fact that most of the Azeri population in the world is living on the Iranian territory (between 16 and 25 million people, more than in the mother-state!). The Iranian state has granted a certain degree of autonomy to this population, a tradition existing to this end since the times of the medieval Persian state. Due to the fact that Iran and Azerbaijan are the only non-Arabic Shi'a majority states in the world there is also an Iranian strategic concept including Azerbaijan into a so called "Greater Iran". In this context, Iran supported the accession of Azerbaijan to the organization of the Islamic Conference.

The relations between the two countries suffered though during the Armenian-Azeri conflict, when Iran was accused of favouring Armenia. Nevertheless, Iran opposed the occupation of the Nakhichevan enclave by Armenian troops and offered to Azerbaijan access routes to its threatened territory using Iranian territory. Also, an Iranian gas pipeline was built to insure the energy supplies necessary to the isolated Azeri province. Consequently, Azerbaijan has totally opposed to a possible attack from the United States on Iran. However, there are border differences, both with Iran and with Turkmenistan, concerning the demarcation of the Caspian Sea continental shelf, an area where there are important oil and natural gas resources.

2. Regional Situation in the South Caucasus

a. Evolution of the Events and Present Situation

Following the collapse of the Soviet Union, in 1992, three new successor states have appeared in the region of the South Caucasus: Armenia, Azerbaijan and Georgia (former *Gruzia*, during the Soviet period). They had not previously been independent, with the exception of a short period after the Bolshevik revolution (1917-1922, the Democratic Republic Armenia; 1918-1921, the Democratic Republic of Georgia; 1918-1920, the Azerbaijan Democratic Republic). During this brief period local conflicts took place between the three new nations for the expansion of their territories. As a result, they were easily subdued by the new Soviet power and arbitrarily reorganized. At the same time, some parts of the territories of Armenia and Georgia were conquered by the secular Turkish republic.

After the proclamation of independence (9 April 1991 – Georgia, 30 August 1991 – Azerbaijan, 21 September 1991 – Armenia) the region was marked by a time of incertitude. Some conflicts, originating from the very last year of existence of the USSR, continued, such as, primarily, the Nagorno-Karabakh conflict (1988-1994) between Armenia and Azerbaijan, but also the conflicts from Abkhazia and South Ossetia (autonomous entities within Georgia). After the conflicts, Armenia occupied the Nagorno-Karabakh enclave and the surrounding areas of Azerbaijan, Abkhazia unilaterally proclaimed its independence and South

Osetia was put the control of the Russian and Georgian troops under UN mandate, after a similar attempt of separation in 1992.

The involvement of the Russian Federation, successor state of the USSR, was an important factor in the evolution of the situation. Russian troops stationed in the region acted in favour or against parties already involved, according to a well designed plan to fragment and control the situation in the area.

Georgia

In the case of Georgia, Russian military and paramilitary forces stationed at the local base in Gudauta intervened, in 1992, in favour of the Abkhazian separatist forces, violating the sovereignty of the new state. Then, after a civil war broke between Georgian political forces, Russian troops contributed, in 1993, to restoring order, together with Armenian and Azeri contingents, at the same time maintaining tight control over Abkhazia. In exchange for this intervention, Georgia was forced to become a full member of the CIS. Taking advantage of Georgia's volatile internal situation, Russia maintained the regional status-quo, including a *de facto* independence of Abkhazia and its "peace-keeping" troops stationed in South Osetia, in spite of the pressure from the international community and of the existing 250,000 Georgian refugees.

In 2003, as a result of an "orange revolution", president Edvard Shevardnadze, a former first rank representative of the Soviet regime and an intimate of Russian circles, was ousted from power and replaced by his former collaborator as minister of justice, Mikheil Saakashvili. The new president has set a clear pro-American orientation of the country and an autocratic regime, restoring the sovereignty of the Georgian authorities over the autonomous province of Ajaria, from the south-west of the country and strongly condemning Russia for the occupation of Abkhazia and for encouraging secession of South Ossetia. Lately, Georgia's relations with Russia became very tense, being marked by reciprocal spying and aggressive action accusations, especially in the context of Russian military occupation over Abkhazia. In these conditions, Georgia has also applied for becoming a NATO member, which did not happen though, due to the multiple potential complications, on the occasion of the NATO Summit in Bucharest (2-4 April 2008).

Concerning the relations with its neighbours, Georgia has a relatively good relation with Turkey and Azerbaijan, which are also its main regional partners. At the same time, there are good relations with the other partners from GUAM, Ukraine and the Republic of Moldova. The relation with Armenia is cordial, although the latter's closure to Russia has lately led to a freezing to this end. The main Georgian allies are the United States, but also the European Union, which supports relations with this country, especially within the European Neighbourhood Policy (ENP).

Armenia

In the case of Armenia, Russian troops stationed in the military base of Gyumri (former Leninakan) remained on the new country's territory, especially as a means of intimidation on the Armenian-Azeri conflict. Unlike the other two neighbouring Caucasian countries, Armenia, who does not share a common border with Russia, maintained good relations with the Moscow administration, manifested both through the participation to the foundation of the CIS and through the signature, in 1997, of an agreement of mutual military assistance in case of an attack from other states, by which Armenia's borders are under the surveillance of the Russian border patrol.

Instead, Armenia's relations with its neighbours have lingered to a pretty low level after the declaration of independence. If, in the case of Azerbaijan, the existence of a frozen conflict has made impossible any normal relation, in the case of Georgia relations were relatively good during the 90s becoming colder as a result of ensuing tensions between Georgia and Russia.

Relations with Turkey were tense from the very beginning, Armenia blaming the Turkish state for the genocide over the Armenian population taking place on the territory of the Ottoman Empire in the period 1915-1917, resulting in the death of approximately 600,000 Armenians (1.5 million, following Armenian estimations). Turkey has never assumed responsibility for the genocide and, as a result, the two states never established diplomatic relations, their common border being blocked by Turkish forces. In spite of this, there is a regular flight between Istanbul and Yerevan, operated by a private Turkish company.

Relations with Iran have evolved in a positive direction, in the context in which the project for energy resources transit from the Caspian Sea region generally avoided Armenia, being concretized in the cooperation between Turkey, Azerbaijan and Georgia. Although its border with Iran is pretty short (35 km), Armenia established a strategic partnership with this country, following which a gas pipeline of 140 km was built insuring, since 2006, the energy supplies necessary to Armenia. In exchange Armenia offers to Iran electricity produced in at the nuclear plant in Medzamor. The agreement with Iran also includes signing a free trade agreement and building a common hydro plant which will replace electricity produced at Medzamor, after the projected closure of the nuclear plant using an obsolete and dangerous Soviet technology.

Internally, the political situation in Armenia benefited from a remarkable stability, based on autocratic regimes, under the leadership of presidents Levon-Ter Petrossian and Robert Kocharyan. Nevertheless, Armenian politics was marked by violence produced by extremist groups, some of them closely linked with the nationalist movements of liberation of Nagorno-Karabakh, which organized even coups against some governing politicians (one of them resulting into the death of the acting prime minister).

b. Role of the Great Powers in the Area

The main international actors with interests in the South Caucasus area are: Russia, the United States and the European Union.

Russia

Russia's interest in the region of the Caucasus derives from its traditional role during the last three centuries. Russia has always considered this space as being in its sphere of influence. While during the Tsarist Empire and the Soviet Union, Russian domination was directly exercised, through occupation and rule of the area, at present the Russian Federation exercises an indirect control of a geopolitical nature, trying to maintain a favourable status-quo but also a balance of influences that will not allow insertion of another major actor in the region.

For Russia, the South Caucasus area represents a part of the "near abroad" on which its national security depends. Insuring a "favourable near abroad" was, as a consequence, the main objective to be accomplished. First, there was an attempt to keep the Caucasian area in the former Soviet sphere of influence, by including the respective states in the CIS. As this structure did not function according to expectations, especially after the national political effervescence of the former Soviet republics, another type of influence was attempted. It was manifested especially by maintaining of troops in key points, often in separatist areas becoming "geostrategic hostages". Usually, Russia considers these troops as "peace-keeping forces", thus hiding its much more pragmatic intentions. Secondly, Russia has benefited for a long time from the existing energy resources transit routes from the former Soviet republics towards its territory. Therefore, its role was to maintain a certain control over resources in the Caucasus and filtering them in their way towards the west, a method often used as a strategic weapon during negotiations with the European Union.

Russia's relations with Azerbaijan were maintained at a normal but low level. Due to the subtle support offered by Russia to Armenian forces invading Nagorno-Karabakh, Azerbaijan has developed a certain hostility towards its northern neighbour but has never directly accused Russia of any implication. In the economic field, however the two countries are in an open rivalry, especially in what regards exploitation of oil and natural gas resources from the Caspian region. Differences concerning the delimitation of the continental shelf have added until recently to the difficulties of this relation (in 2002 an equidistant delimitation agreement was eventually signed by the two countries).

The only country in the area having a close and even privileged relation with Russia is Armenia. By the troops stationed at Gyumri, but also through the logistic help offered to Armenian occupation troops stationed of Azeri territory, Russia thus manages to maintain the stalemate regarding a development of Azerbaijan at its maximum potential. At the same time, it maintains its influence over a former Soviet republic which also has good relations with Iran and which thus completes **an important geostrategic axis: Russia-Armenia-Iran.**

Concerning Georgia, control is maintained through the troops stationed on the territories of Abkhazia and South Ossetia and through the tacit support for the separatist regimes of Sokhumi and Tskhinvali. The official reason is peace-keeping in the region, after the harsh intervention of Georgian troops, but also the control of a refuge zone of the Chechen rebels. The situation is temporarily settled through the ceasefire agreement signed in Moscow in 1994 and by the no less than 32 UN Security Council resolutions, which recognize Georgia's territorial integrity, the right of the 250,000 Georgian refugees to come back to Abkhazia but also Russia's role in maintaining peace in the area and the ban on Georgian troops' access to the province.

As a consequence, Georgia manifests a growing hostility towards the Russian Federation and tries to obtain a most consistent support from the United States, considered to be the only actor that can oppose Russia's position. Responding to that, Russia also uses the energy weapon, refusing to supply energy to Georgia through existing pipelines but also by boycotting Georgian products (especially wines). As a result, Georgian troops are considering resuming hostilities in Abkhazia and South Ossetia, with the American logistic help, an intervention which might destabilize the area.

United States

After the fall of the Soviet Union, the United States remained the only superpower at world level. In this context, the areas that were formerly under the control of the Soviet bloc became targets of the American domination, which was seeking supremacy in various strategic areas of the world. The Caucasus region is a stake for the American administration at least for two reasons. First of all, the area is seen as an extension of the Middle East (the so-called "Broader Middle East") to the north. The Middle East represents an area of major interest for the United States, both concerning the energy resources and the control over a cultural area fuelling international (anti-American) terrorism, by means of the Islamic fundamentalism. The main enemy is Iran, which produced much irritation at Washington after the Islamic Revolution of 1979, especially by the hostages crisis and the support of the Hezbollah terrorist network from Syria and Lebanon, but, more recently, also by supporting the Shi'a terrorist organizations in Iraq. The Caucasus area is neighbouring Iran, thus being considered a potential base for launching possible American attacks.

Secondly, the Caucasus region is situated in the close neighbourhood of the Caspian Sea and of Central Asia, regions with important natural reserves (oil and natural gas). From this point of view, they could represent a secondary source of energy for the United States, in the context in which the situation in Iraq is deteriorating and the oil reserves from the Gulf area do not insure the necessary supplies of the US and maintain the prices at a skyrocketing level.

Washington has found a moderate opening in the cases of Georgia and Azerbaijan at the beginning of the 90s. These countries wanted to emancipate

from the influence of Moscow and considered that a rapprochement with the United States could insure them a certain autonomy of action in the region. To this end, in 1997, the **GUAM Organization for Democracy and Economic Development** was created, with a consistent American support. The organization set to promote democratic values in the area, insure a stable development of the respective member states (Georgia, Ukraine, Azerbaijan, Moldova; Uzbekistan was a member state only in the period 1999-2005), regional security (including energy security) and creating the perspectives of an eventual integration into the Euro-Atlantic structures. Among others, the organization was seen as an alternative to the CIS and its structures controlled by Russia. Its concrete contribution in the region was reduced up to the present to the economic aspects of developing some transport routes (especially for the energy resources in the area).

Azerbaijan's position towards the United States did not change too much compared to the beginning of the 90s, but a series of differences occurred. The United States continue to be the most vocal critique of the human rights situation in Azerbaijan, a fact that produces irritation at Baku. The irritation is increased by the lack of American implication in solving the Nagorno-Karabakh file, both logistically and diplomatically.

In what regards Armenia, there is a strong Armenian lobby in the United States supporting the position of the Armenian state. Moreover, a significant part of the Armenian diaspora lives in the United States, even if a part of it has come back to Armenia after 1991. The United States support the development of democracy in Armenia with important financial programmes. Also, there is a free trade agreement (since 1995) insuring a good economic relation. Thus, Armenia manages to have good relations both with the United States and with Russia, which insures it a strategic advantage in the region, mostly in the matter of the occupation of Nagorno-Karabakh region.

Georgia's position has become categorically pro-American after the "orange revolution" of 2003, supported from the shadow by Washington. The American decision-makers have thus established a "beach head" in the area, through which they can control the transit of energy resources from Central Asia, but, at the same time, they can create a problem to Russia, which could thus be distracted from the issue of the anti-missile shield deployment in Central Europe and attracted on the American side on the matter of the Iranian file. This strategy ignores however that it is Russia itself which is behind Iran's rigid position and that Russia's national security also implies the areas in its "near abroad".

In conclusion, the American involvement, even if it is circumscribed to the attempt of insuring the energy security and stabilization of the area through the process of internal democratization of states in the region, does not bring a significant contribution to securing the area. The fact that the United States consider this area as being of secondary importance and the compromise they reached with Russia in the case of the last NATO enlargement, when Georgia was not offered the perspectives it expected, proves that, despite the clear pro-

American orientation of some governments in the area (notably Tbilisi), the Washington administration does not hesitate to use the region as an exchange currency in the relation with Russia. In the context of the fight against international terrorism, an alliance with Russia seems to be appreciated more by Americans than alliances with small regional partners.

European Union

The European Union (EU) represents a different kind of international actor, according to its multi-national and supra-state structure. As a result, the EU's power resources and action means are completely different from those of a national state. They are based on the use of a *soft power*, placing greater emphasis on economic, societal and individual development rather than on military force and deterrence capacity. Therefore, in some situations, the EU involvement is not perceived as being substantial but after a longer period of time.

The main EU instrument in the South Caucasus area is the European Neighbourhood Policy (ENP). Within this instrument, the countries in the region have an important role, especially concerning the security needed in an area situated close to the EU. In this context, the existence of frozen conflicts in the Caucasian region cannot but raise concern of European cabinets, which had to react for the resolution or at least neutralization of the existing threats. Due to the proximity of Russia in the respective region, the ENP is designed to express principle positions and to invite the Russian Federation to cooperate. At the same time, this space is also marked by the EU recognized important geostrategic role of Turkey and also by the regional role of the Black Sea Economic Cooperation (BSEC). A special interest is manifested towards the region's transit and energy production potential, in the conditions of an increasing dependence of the EU towards Russia's energy resources and of searching routes that would diversify supplies. Simultaneously, the EU supports reforms for the consolidation of the rule of law and human rights regime in the respective states.

A very important document for the South Caucasus is the *Black Sea Synergy*. It synthesizes the main fields of interest and cooperation between the EU and the countries in the region: democracy, human rights and good governance, cross-border traffic, frozen conflicts, energy, transport, environment, maritime policy, fishing, trade, research and education, science and technology, labour market, regional development. The main programme envisaged in this context aim at developing civil society, cooperation at local level, cultural and educational exchanges, free trade, also involving international financial institutions, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD)². Also, following a Romanian initiative, a new structure of cooperation was established, the Black Sea Forum for Dialogue and

² Commission of the European Communities, Communication to the Council and the European Parliament: *Black Sea Synergy – a New Regional Cooperation Initiative*, Brussels, 11.04.2007, COM(2007) 160 final, pp. 3-10

Partnership, which, however, did not enjoy the expected success. Unfortunately, most initiatives concerning the Black Sea area only concern Georgia and less the other Caucasian countries.

In practice, in the energy field there is the **Baku Initiative**, which aims at better cooperation between the countries in the area and the EU for insuring the common energy security, the **INOGATE** (*INterstate Oil and GAs To Europe pipelines*) programme, which insures a structured plan of energy transit between Central Asia and the Caspian Sea and the EU member states and the **TRACECA** (*TRAnsport Corridor Europe Caucasus Central Asia*) programme, concerning the development of transport infrastructures (road, railways, air and sea traffic) between Central Asia and Europe. These initiatives constitute the central axis of the European policy in the region, beside the various pipelines projects, especially concerning the territories of Georgia and Azerbaijan.

Out of these projects, the most important is the *Nabucco*, which aims at connecting the Baku-Erzurum pipeline (in some documents it is also mentioned the Tabriz-Erzurum pipeline) with a European route on the territories of Romania, Hungary and Austria. This project would join several companies, such as OMV (Austria), MOL (Hungary), Transgaz (Romania), BOTAŞ (Turkey), RWE (Germany) and SOCAR (Azerbaijan). In practice, though, the project's main competitors are the versions of the Russian company **Gazprom**, known under the names of *Blue Stream* (envisaging a submarine pipeline between Russia and Turkey and a land pipeline through Bulgaria, Serbia, Croatia and Hungary) and *South Stream* (implying direct maritime transport to Bulgaria and a land pipeline through Serbia, Croatia, Hungary and Austria).

The main weakness of the EU position in the region lies in the fact that it does not have a differentiated policy towards each of the three countries and that it tries a global approach, while the situation and position of each state is different (which can also be said about the EU member states). This inconsistency tries to mask the discomfort of European institutions in adopting a clear-cut position that would advantage a side or another (especially in the Nagorno-Karabakh case but also in the dispute between Russia and Georgia), trying instead to maintain cordial relations with all actors involved and benefit from an innocence assumption. In reality, though, even the member states have contradictory positions. Thus, France strongly supports Armenia's position, by virtue of the support given to the international recognition for the Armenian genocide of 1915-1917, a fact that aroused a harsh reaction of Turkey, and France's relation with Russia is very cordial. Germany does not have a very clear position, showing a certain disinterest towards the region and preferring to discuss directly with Russia all matters concerning the former USSR. The United Kingdom supports the positions of Georgia and Azerbaijan (where important British economic interests exist) following the line established by the United States.

The only chapter where the European Union has an advantage is the fact that it signed Partnership and Cooperation Agreements with Armenia and

Azerbaijan (in 1996, in force since 1999) and even a Common Action Plan with Georgia (2006), within the ENP, which is considered by the Tbilisi administration a first step towards EU accession. In the case of Azerbaijan, the Action Plan was signed in November 2006 and in the case of Armenia discussions are in progress to sign a similar agreement. Nevertheless, the ENP is not at the present moment a satisfactory framework for developing relations with the respective states.

The relations of the main international actors with each of the states in the area are summed-up in the following table:

States in the region / Main international actors	Georgia	Armenia	Azerbaijan
Russia	Very tense relations. Georgia accuses Russia of maintaining occupation forces in Abkhazia and South Ossetia. Russia accuses Georgia of supporting the Chechen rebels	Very good relations. Friendship, collaboration and mutual assistance treaty (since 1997). Russia stations troops on the Armenian territory with the agreement of the Yerevan government	Normal relations with moments of coldness. From a political point of view there are normal bilateral relations. From an economic point of view the two states are direct competitors
United States	Very good relations. US military assistance through IMET and GTEP programmes and the presence of the 6 th US Fleet near Georgian harbours to the Black Sea. Participation of Georgian troops to the mission led by the United States in Iraq. Financial assistance through the <i>Millenium Challenge Compact</i> (2006)	Good relations. Free trade and investment agreements (1992 and 1995). Financial support for democratization through <i>USAID</i> and the <i>Millenium Challenge Compact</i> (2006)	Good relations. Azerbaijan participates with troops to the missions led by the United States in Afghanistan, Iraq and Kosovo and cooperates with the American military forces to insure the security of the Baku-Ceyhan pipeline

European Union	Very good relation. Common Action Plan within ENP (since 2006)	Cordial relations. Partnership and Cooperation Agreement (since 1999). Current negotiations for a Common Action Plan	Good relations. Common Action Plan within ENP (since 2006)
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3. The Nagorno-Karabakh Conflict – the Gordian Knot of the South Caucasus Situation

The Nagorno-Karabakh region ignited major disputes between the new independent states Armenia and Azerbaijan even from their first proclamations of independence, in 1917-1918. A region populated by an Armenian majority, surrounded by Azeri majority regions, it was the *casus belli* between the two Caucasian states, a fact that led to their very fall under the siege of the Bolshevik forces. Armenia tried to annex the territory by conquering the contiguous areas inhabited by Azeris, which led to a direct conflict between the two emerging countries. The Soviet power tried to maintain the regional balance and uncertainty by establishing in 1923 the homonymic autonomous region within the Socialist Republic of Azerbaijan, but also offering to this republic the Nakhichevan enclave situated between the Armenian Socialist Republic and Iran.

As a consequence of the loosening control of Moscow over the Soviet republics at the end of the 80s, in February 1988, the National Council of Nagorno-Karabakh, made up of a majority of ethnic Armenians, voted the unification of the region with the Armenian Soviet Socialist Republic, accusing a supposed policy of colonization of ethnic Azeris in the region. As a result of this action ethnic violence erupted between Armenians and Azeris in the region, a fact which determined Moscow to give Baku authorities increased powers in order to intervene and settle the issue. The situation was complicated by the decision of the Supreme Council of the Armenian SSR which decided, in 1989, in a joint session with the National Council of Nagorno-Karabakh, the unification of this region with Armenia. An armed conflict followed between the emerging military forces of the two republics, which benefited from the Soviet weaponry reserves abandoned by the Union troops.

The proclamation of independence of the two former Soviet republics in 1991 has led to the unfolding of a typical inter-state conflagration. In the beginning, Azerbaijan had the logistic and manpower superiority. Armenia nevertheless profited from the favourable setting of the CIS foundation, to which Azerbaijan did not take part from the first instances, and became a member of this structure, which allowed it to call for CIS peace-keeping troops which occupied the Nagorno-Karabakh region, allowing the advance of Armenian troops in the Azeri territory.

In 1992, CSCE (after 1995 OSCE) decided to get involved into the resolution of the conflict and created the Minsk Group, made up of the two Caucasian states and other eight European countries (Belarus, Finland, Germany, Italy, the Netherlands, Portugal, Sweden, Turkey) and headed by France, Russia and the United States. This organism aimed at facilitating negotiations between the two parties, the signing of a ceasefire agreement in view of organizing a Peace Conference in Minsk and the deployment of peace-keeping forces (under OSCE mandate), mainly what is known as the Minsk Process. Out of these actions, only one was achieved until the present-day: in 1994 a ceasefire agreement was signed, at a moment when the Armenian troops controlled 14% of the Azeri territory. In fact, starting with 1993, the Baku government recognized the Nagorno-Karabakh authorities as part in the negotiations process, but it excluded any possible recognition of a potential *de jure* independence of the region. Part of the Russian troops in Armenia remained stationed in the occupied region as peace-keeping forces. As a matter of fact, Russia never conceded to another implication of forces under OSCE mandate in the region. Turkey's attempts to intimidate the Armenian side in July 1993, in order to avoid an invasion of the Nakhichevan enclave, was countered by military manoeuvres of Russian troops in the area.

The conflict had devastating results for Azerbaijan, no less than 1 million people being forced to leave the Nagorno-Karabakh region and the territories surrounding the Armenian majority enclave and a series of small Azeri enclaves on the Armenian territory. At the same time, 230,000 ethnic Armenians (400,000 according to other sources) were forced to leave Azerbaijan (the territory administered by the Baku government). The territory currently under Armenian occupation exceeds the territory of the former Nagorno-Karabakh autonomous region and includes one third of Azerbaijan's crop land. In the occupied areas the Armenian forces conducted a policy of ethnic cleansing and colonization in order to justify their territorial claims. Also, all communication line of the region with the rest of Azerbaijan was cut.

Nevertheless, no state had recognized until the present-day the independence of the self-proclaimed "Nagorno-Karabakh Republic". Resolutions 822, 853, 874 and 884 of the UN Security Council consecrate the territorial integrity of Azerbaijan and consider unacceptable the annexation of territories by the use of force. Also, the proposals of the Minsk Group, under the OSCE patronage, are limited to insuring a broad autonomy to the enclave within the sovereign Azeri state, following the model of the Aland Islands in Finland or the Feroe Islands within Denmark. In spite of that, the situation did not progress during the last fourteen years, remaining in the form of yet another frozen conflict. On the contrary, frequent fire exchanges were recorded between forces deployed around the ceasefire line, a situation suggesting a continuation of the conflict rather than its resolution.

In September 2005, a proposal of political settlement to the conflict advanced by the Azeri Minister of Foreign Affairs, Elmar Mammadyarov, based on

a previous suggestion of the US State Department, proposed the securization of an access road between Armenia and Nagorno-Karabakh, the so-called Lachin Corridor, in exchange for securing an access route between Nakhichevan and Azerbaijan in the south of the Armenian historical region of Zangezur (currently the south of Syunik province), where there are a railway and a road very little used after 1991, and the retreat from the occupied territories surrounding Nagorno-Karabakh. The proposal was nevertheless rejected by the Armenian side, not interested in losing a direct contiguity with Iran.

The last political evolutions do not offer many reasons of optimism regarding a settlement of the situation. Armenia's position remains unchanged, aiming at an annexation of the occupied territories. Moreover, as a result of Kosovo's proclamation of independence, several official from Yerevan declared that the event could be considered a precedent for recognizing the independence of the self-proclaimed "Nagorno-Karabakh Republic". On the other side, president Ilham Aliyev declared that a resumption of military operations is not excluded in order to liberate occupied territories, intention confirmed by lower rank Azeri officials. Stuck between the multiple regional and international complications of the problem, the international community is not yet able to offer a viable solution to this intricate stalemate.

4. Conclusions and Action Proposals for the European Union

The existence of some local rivalries and the involvement of some great powers in the South Caucasus region determine a great fragility of the area, which can turn into an insecurity accumulator in the neighbourhood of the European Union. From a geopolitical and geostrategic point of view, the Caucasian region is increasingly important for all global and regional actors. But it is the very increase in importance that hinders a solution, the great powers preferring to preserve their present tactical advantages.

The stabilization and democratization of the area cannot be achieved but through a combination of conditions which have to be met by the external factors and also within the internal policy of each state in the region. The external factors must abandon the zero sum game practised at present. The key actor of the region is obviously Russia. Therefore, any EU attempt for a resolution of problems in the South Caucasus cannot ignore the relation with Russia. Therefore, the aggregate negotiations between the EU and Russia should also include the issue of South Caucasus, as a separate theme of strategic importance.

In what concerns internal measures, the EU must continue to use its *soft* type of influence, especially in the fields of the fundamental rights and freedoms, rule of law and political pluralism. The European Union cannot avoid a more consistent involvement in the region of the South Caucasus. In spite of the fact that Russia and the United States are the actors involved the most and that have allocated most resources for influencing the area, the European Union has more important potential conferred by its position as "*soft* power". Thus, beside of

lacking some significant means of action, the European Union is the only one which does not condition cooperation with the Caucasian partners by some economic, financial, political or military constraints. The only requirement of the Union is the voluntary adoption by states in the region of some values which are, ultimately, for the most part common values.

Promotion of European values must not, however, take place mechanically but through a gradual strategy that will take into account different conditions in various corners of the world. What has to be promoted in the South Caucasus region is a *democracy with variable geometry* through which the assimilation of values will happen not only at the level of elites but also at the level of common people. In this sense, it is useful to find a synergy with the United States, insuring a harmonization and coordination in promoting democracy in the region, not against the interests of the Russian Federation, but in partnership with it.

In what regards the relation with Azerbaijan, there are good premises for its consolidation, as a first step of a more concrete EU involvement in the region. On a bilateral level, Romania's relations with Azerbaijan were constantly good, from the very proclamation of independence of the Caucasian state in 1991 (Romania was the second country recognizing the Azeri state, after Turkey). After Romania's accession to the EU, the good relations between the two countries were also transferred to the level of the relations of the European Union with its Caucasian partners. In the context in which Romania is, at this moment, the eastern border of the Union and wishes to have an active policy in the Black Sea region and in the neighbourhood of the EU, the potential of transferring the good cooperation with Azerbaijan at the level of the entire Union could become a first real contribution of the Romanian state to clarifying the Union's foreign policy in the Caucasus.

The good relations of Azerbaijan with Romania and, in general, with the countries of Central and eastern Europe, are doubled by good economic relations. Thus, at the level of the European Union, the investments of countries in eastern part of the Union are twice more important in terms of quantity than those of countries in the western part of the Union.

The geostrategic analysis of the region highlights the fact that the main international actors in the region, Russia and the United States mainly base their strategies on the alliance with a pawn-state, Russia with Armenia and the United States with Georgia. At the same time, Azerbaijan does not have such an alliance and its natural tendency would be towards the European Union. Nonetheless, the Azeri state does not share a common border with EU countries, which makes difficult the contacts and its physical communication close to isolation from the Euro-Atlantic world. As Russia and Iran are not very amiable towards its affirmation as a viable state and the border contact with Turkey (its main ally) is insignificant, Azerbaijan is obliged to have a multi-directional foreign policy.

If Armenia cannot but put its stakes on the Russian card and only in a remote subsidiary on the American card (or western card, in general) and for

Georgia the easiest solution is to bet everything on the pro-American and Euro-Atlantic option (thus radically opposing Russian control), Azerbaijan cannot count on any of the main opponents in the area, Russia and the United States. Therefore, the Azeri state must accomplish a policy of balance both concerning the geopolitical orientation and the means (*soft* and *hard* alike). Such a fragile balance strategy imposes finding an ally which would be specialized in the multi-directional approach and *soft* power: this cannot be but the European Union, which has relations both with the United States and Russia, is specialized in *soft power* policies and can be an acceptable partner for Russia and preferable by the United States. As a consequence, an alliance of Azerbaijan with the EU naturally strengthens the assets and features of the Azeri policy.

In what regards the European Union, it has no other available ally in the area than Azerbaijan. The EU cannot accept the radical strategy of Georgia, implying a *hard power* policy, as it also does not have any interest in opposing American policy on the Georgian territory. At the same time, the EU cannot satisfy Armenia's expansionist expectations and doesn't have any interest to oppose Russian policy on the Armenian territory. Instead, by the fact that they are promoting their regional interests through Armenia and Georgia, Russia and the United States do not have any vital interests in Azerbaijan (maybe with the exception of securization of an energy transport route by the Americans).

The issue of Nagorno-Karabakh can be regarded as a sort of American-Russian-European warranty concerning the right to intervene in Azerbaijan. The EU can win the alliance with Azeri state by turning this warranty in a policy promoting international law and a restoration of Azerbaijan's territorial integrity.

The interests of the European Union in the South Caucasus area refer to accomplishing a political and economic stability, establishing peace and eliminating conflicts with a potential of spill-over, maintaining a free transit area and even erecting a free economic area in the region. The consolidation of democratic institutions is just one of the necessary instruments for attaining these regional objectives. For satisfying its interests, the EU must identify the main pivot, which is Azerbaijan. Therefore, it has to come with a special policy made for the relation with the Azeri state. The main factor in promoting this policy is finding a consistent strategy for solving the Nagorno-Karabakh crisis on the basis of the principles of territorial integrity and internal self-determination.

One must not also forget that Azerbaijan is the most well developed country in the area from an economic point of view and having the highest development potential for the future. Apart from that, Azerbaijan is the key-country at the gate of the important energy resources from the Caspian Sea region and Central Asia. That is why its transit potential must not be underestimated, even if a significant part of this interface is also Georgia.

At the same time, the EU must have such a policy in order to avoid Azerbaijan's dependence on its energy resources, which will be exhausted in a relatively short period of time. The EU is the most suitable actor for responding to

this Azeri interest and transform Azerbaijan in an economically balanced developed country.

The economic superiority of the Azeri state, with its impact over the living standards of the population, will be able to act as an attraction factor towards Armenia. Armenia's access to Azerbaijan's prosperity will be the most important argument for Armenia to accept the solution proposed by the EU in Nagorno-Karabakh. In such conditions, there will be a possibility that the Armenian-Azeri reconciliation will represent the starting point of a Transcaucasian community built according to the model and with the assistance (technical and financial) of the EU.

Bringing Georgia within this community will depend on the extent to which it would understand that its independence and exit from under the Russian threat can be achieved only by applying the Finnish model and not by joining NATO. **Georgia's neutrality could constitute an essential factor for the stability of the entire region.** It could set the foundation for an agreement between the great global actors having interests in the area – Russia, USA and the EU. In such a community, Abkhazia, South Ossetia and Nagorno-Karabakh will be very well integrated and their secessionism will become obsolete and counter-productive for them and their present supporters.

In these conditions, **we consider that the achievement of a consolidated partnership between the European Union and Azerbaijan represents an immediate geostrategic imperative for the European foreign policy.** This partnership could become the core of a future development of the entire area, first of all by the establishment of normal relations between the three states. By consolidating its relation with Azerbaijan, the European Union would this strengthen its presence in the region, not only through the ENP, but also through a differentiated approach of each country and through the consolidation of each relation, which can globally offer more mutual benefits.

Azerbaijan needs a more coherent EU policy in the Caucasian space, especially in the context of an escalation in the diplomatic conflict between Georgia and Russia. In the present rhythm of events one could witness an undeserved and counter-productive isolation of the Azeri state and the loss of an important battle for influence and resources. While Azerbaijan is one of the few states having good relations with Turkmenistan and an important partnership with Kazakhstan, independently from Russia's position, its potential cannot be ignored. **In the context of development of Azerbaijan's financial resources, their allocation for military purposes could be a negative evolution, with a destabilizing potential in the region.** The Azeri state needs to use the resources obtained after selling its hydrocarbons for a modernization of its society, for education, health and, in the future, for building industries and alternative services to those in the extraction industry.

The existence of a secular system with obvious democratic aptitudes in a state with a Shi'a Muslim majority is another asset which should be supported by

the European Union. As some decisions are taken today rashly, on the basis of cultural stereotypes perpetrated in an unjustified way at this beginning of century, the development of an Islamic democracy cannot but constitute a model for all the region of the broader Middle East and a guarantee of the area's internal stabilization. This should also be supported by EU's transatlantic partner, as it represents in itself a more efficient model than military intervention and forced assertion of an alien political system, with the potential of compromising the whole regional situation, as is the case in Iraq. If we also take into account the potential of co-financing of the Azeri state, one can consider that this model of cooperation is much more sustainable on medium and longer term.

At the same time, though, one should not forget that a lack of resolution of the Nagorno-Karabakh conflict is a serious hurdle against taking advantage of the huge potential of Azerbaijan and against the EU's regional aspirations. This issue raises doubts in Baku concerning the consistency of the European regional policies, decreasing the Union's credibility and hindering the identification of a success formula. One cannot also ignore the fact that the European Union has set from its very beginning to be a guarantor of the post-war world order based on the international law.

In these conditions, taking into account the reprehensible consequences of the Kosovo case and the resolutions of the UN Security Council, **the only possible alternative for the resolution of the Nagorno-Karabakh problem** and which should be as soon as possible supported by the EU is **the immediate retreat of Armenian occupation forces and the negotiation of an increased autonomy status of the region within the borders of the sovereign Azeri state**. Any other position is contrary to the spirit laying at the foundation of the Union and reflects another type of interests, of a nationalist type, becoming obsolete at the beginning of this millennium. One should realize that the right to self-determination only belongs to nations and not to minorities from internationally recognized states with precise borders. Moreover, according to specialists, a resolution of the Nagorno-Karabakh conflict will bring a 30% advantage to the economic growth of Armenia and only 5% to that of Azerbaijan.

Building a thorough relation with Azerbaijan and with the other countries in the region one must abide by a certain well-structured roadmap, which would allow for a sustainable and mutually advantageous closing of the parties involved. Thus, this plan should take into account some essential points, as follows:

- 1. Elaborating a coherent EU strategy in three stages:**
 - A. Adoption by the EU of an individual approach policy for each country in the region**
 - B. Signing a strategic Partnership Agreement between the European Union and Azerbaijan, with an important component concerning energy security, economic and social development, transport, education and culture, but also including some military guarantee**

(coordinated with NATO policies). The process of achieving this partnership could include the following steps:

- a. **Foundation of a EU-Azerbaijan Friendship Group, made up of MEPs and MPs from the Baku legislative, belonging to various political groups**
 - b. **Establishment of periodical institutional consultation mechanisms between executive and legislative organisms of the two parties**
 - c. **Inclusion of Azerbaijan in the co-financing procedure for European programmes concerning the South Caucasus**
- C. Introducing confidence-building measures between Armenia and Azerbaijan, following the model of the Franco-German and Romanian-Hungarian reconciliations**
- 2. Organization of an International Conference for Security and Cooperation in the South Caucasus, with the participation of the countries in the region, the main international actors and the neighbouring countries (including Russia and Turkey). Restoration of Azeri sovereignty over its entire territory and establishment of normal relations with all its neighbours. Establishment of a Stability Pact for the South Caucasus, following the model of the Stability Pact for South East Europe**
 - 3. Founding a free trade economic area named “Common House of the Caucasus”, following the model of the Central European Free Trade Area (CEFTA).**

If these steps will be followed, the creation of a South Caucasus Community (Union), according to the EU model, will become possible and will transform the whole area in a natural partner of the EU. At the same, the EU must elaborate, together with Russia, an integrated foreign policy in their common neighbourhood. The policy will have to be based on the existence of a free common market, on a common space of freedom, human rights and justice (on the basis of the Council of Europe resolutions) and on the establishment of a military neutral area. This special partnership will be based on a common use of resources and policies, but not on common institutions. To this end special common institutions could be created.