



**Diplomatische
Akademie
Wien**



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**PROMOTING INSTITUTIONAL RESPONSES
TO THE CHALLENGES IN THE CAUCASUS**

The OSCE, UN, EU and the CIS
Analyses–Case Studies–Outlooks

31st IPA Vienna Seminar



International Peace Academy,
New York

Diplomatische
Akademie **WIEN**

Vienna School of International Studies

“FAVORITA PAPERS“ OF THE DIPLOMATIC ACADEMY VIENNA

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International Peace Academy

31st Vienna Seminar

Diplomatic Academy Vienna

5-7 July 2001

***D*iplomatische
*A*kademie *WIEN***

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INTRODUCTION

ERNST SUCHARIPA
Director, Diplomatic Academy, Vienna

The International Peace Academy's 31st Vienna Seminar which was held at the Diplomatic Academy from 5 – 7 July 2001 was devoted to "Promoting Institutional Responses to the Challenges on the Caucasus". It was co-organized by IPA, the Diplomatic Academy and the Austrian Defense Academy. I am particularly grateful to the Ministries for Foreign Affairs and National Defense for their financial, logistic and intellectual support.

This year's seminar continued the theme from last year's which dealt with the interplay of various actors involved in conflict resolution on the Balkan ("Sharing Political Space in Peacemaking: The United Nations and Regional Organisations", Diplomatic Academy Vienna, Occasional Paper No.3/2000.)

The Diplomatic Academy again was extremely fortunate to be able to welcome many well-known political analysts with experience in the Caucasus area as well as an impressive number of political actors: representatives of the states of the region and other states with important stakes in the various conflicts, representatives from the UN, the OSCE and other international organizations and civil society.

The conference did not limit itself to a discussion of the political aspects of the conflicts on the Caucasus but also dealt with the underlying economic, social and institutional questions. Discussions were particularly frank and open; they showed the deeply entrenched positions of the parties but, through constructive dialogue, also offered glimpses of potential avenues for the resolution of conflicts.

The challenges which the countries of the region face are enormous: extremely difficult economic situations and complex transition processes, increasing poverty, environmental degradation, corruption and organized crime, erosion of political, societal and governmental structures. This situation does not facilitate the solution of conflicts. Hence the tremendous importance which must be attached to the efforts of those states which bear influence and to international organizations involved in the region. The seminar has shown the intricate web of interactions which, if used constructively, could be put into the service of a peaceful development for the Southern Caucasus.

This paper contains IPA's seminar report, papers submitted to the conference as well as an overview of the political situation in the Southern Caucasus, including the position of the various partners to the conflicts, written by Dr. Heidemaria Gürer, Austria's Ambassador at large for the region. As a further Austrian contribution we have also added the text of a lecture given by Prof. Hans-Georg Heinisch on Oct. 12, 2001 at the Diplomatic Academy on: "Frozen Crises in the Caucasus: can the circle be unsquared?"

I wish to thank all contributors for their important contributions both to the seminar itself and to this paper. I am particularly grateful to the conference rapporteur, Mr. Kelvin Ong from IPA and to IPA's President Ambassador David Malone for his leadership in proposing and organizing the seminar and for his spirited chairmanship.

Particular thanks are due to Johannes Wimmer, Deputy Head of the UN-desk at the Ministry for Foreign Affairs, Vienna and to Sandra Kick from the National Defense Academy for their invaluable help in organizing the Seminar. Finally, Birgit Marzo (Diplomatic Academy, Vienna) deserves enormous credit for her work in editing this paper.

PROGRAM

IPA SEMINAR – VIENNA

5 - 7 July 2001
Diplomatic Academy, Vienna

PROGRAM CHAIRS

Dr. DAVID M. MALONE
President, International Peace Academy

Ambassador Dr. ERNST SUCHARIPA
Director, Diplomatic Academy, Vienna

General ERNEST KÖNIG
Commandant, National Defence Academy, Austria

PROMOTING INSTITUTIONAL RESPONSES TO THE CHALLENGES ON THE CAUCASUS

THE CAUCASUS: MAJOR CHALLENGES

”The Challenges in the Caucasus”

Speaker: Ambassador MARTON KRAZSNAI, Director Conflict Prevention
Center, Organization for Security and Cooperation in Europe (OSCE)

”Threats to the political and socio-cultural fabric of the Caucasus”

Speakers: Mr. MARIO BORSOTTI, United Nations Resident Coordinator, Tbilisi

Mrs. MARTHA BRILL OLCOTT, Senior Associate, Carnegie Endowment for
International Peace, Washington, D.C.

”South Caspian Oil and Gas; a problem or a solution?”

Speaker: Mr. TERRY ADAMS, Consultant

CASE STUDIES FROM THE CAUCASUS

”Nagorno-Karabakh”

Speakers: Dr. GERARD LIBARIDIAN, Visiting Professor, Department of History,
University of Michigan, Ann Arbor

Ambassador VAFA GULUZADE, President, Caspian Policy Studies
Foundation, Baku Azerbaijan

”Abkhazia”

Speaker: Mr. ARCHIL GEGESHIDZE, Fulbright Scholar, Center of International Security,
Sandford University

”The United Nations’ role in the Settlement of the Abkhaz Conflict”

Speaker: Dr. DIETER BODEN, Special Representative of the United Nations Secretary
General and Head of the United Nations Observer Mission in Georgia
(UNOMIG)

EXPERIENCE OF THE UN AND THE OSCE IN MANAGING THE CHALLENGES OF THE CAUCASUS

”Is UN led Peacekeeping in the Caucasus Feasible?”

Speaker: Mr. MICHAEL SHEEHAN, United Nations Assistant-Secretary-General,
Department of Peacekeeping Operations

”How Effective has the OSCE been in the Caucasus?”

Speakers: Ambassador ANDRZEJ KASPRZYK, Personal Representative of the
Organization for Security and Cooperation in Europe (OSCE). Chairman-in-
Office for the Conflict Dealt with the Minsk Conference

Mr. GIORGIO BURDULI, First Deputy Minister, Tbilisi, Georgia

Mr. ARAZ AZIMOV, Deputy Minister of Foreign Affairs, Azerbaijan

Mr. SAMUEL MKRTCHIAN (Armenia)

”OSCE partnership with Other Organizations in the Caucasus”

Speakers: Ambassador LEOPOLD RADAUER, European Union (EU) Council Secretariat

Ambassador CAREY CAVANAUGH, Special Negotiator for Nagorno-Karabakh and NIS Regional Conflict

”The role of Russia: Views from Major International Actors”

Speakers: Mr. ANDREI ZAGORSKI, Project Director, East-West Institute, Prague

Mr. PAVEL BAEV, Senior Researcher, International Peace Institute, Oslo

H.E. Mr. GUIDO LENZI, Permanent Representative of Italy to the Organization for Security and Cooperation in Europe (OSCE)

”A Russian perspective”

Speaker: Mr. BAKHTIER HAKIMOV, Director of the First CIS Department, Foreign Ministry, Russian Federation

”Factors Behind the Limited Success of the CIS”

Speaker: Professor NEIL MACFARLANE, Centre for International Studies, St. Anne’s College, Oxford University

”The OSCE Border Monitoring Operation in Georgia”

Speaker: Major-General BERND LUBENIK, Head of the Border Monitoring Operation of the OSCE Mission to Georgia

”National Authorization for Participation in Peacekeeping Operations in the Caucasus: Law and Practice”

Speaker: Mr. BAKHTIYAR TUZMUKHAMEDOV, Associate Professor, Diplomatic Academy of the Russian Foreign Ministry

SECURITY CHALLENGES IN THE CAUCASUS

**5-7 July 2001
Diplomatic Academy
Vienna, Austria**

SEMINAR REPORT

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Executive Summary

- Current means and approaches employed by the international community to ameliorate instability in the South Caucasus are in serious need of reassessment. Political and economic resources devoted to conflict resolution in Nagorno Karabakh, South Ossetia, and Abkhazia have to be considerably augmented and supplemented with a concerted effort to engender states and institutions accountable to the people, stem corruption and organized crime, boost economic development to address chronic poverty and income inequality, as well as, to promote peaceful co-existence among different ethnic groups in the region.
- While Caspian energy and other industry-related developments represent an important lifebuoy for the South Caucasus states, the contribution to regional peace and security is limited. This conclusion is based on a more realistic assessment of the region's oil production potential; its inability to effectively compete with other oil producing regions, and its vulnerability to external economic forces. Moreover, developing energy resources in the disputed Caspian Sea in a way that benefits all littoral states, but without impinging on the security of non-littoral states, such as Armenia, remains a critical, though unresolved, issue.
- Although Russia is an important actor in the security calculus of Armenia, Azerbaijan and Georgia, its role in resolving regional conflicts is constrained. Moscow's apparent preference for a unilateralist approach to regional states is more likely to stymie than bolster regional security, notwithstanding President Putin's more enlightened policy towards the South Caucasus. This is particularly true as Russia grapples with its own economic problems and a lengthy military campaign in Chechnya.
- In contrast to the CIS, the OSCE plays a central role in the South Caucasus. While actual accomplishments have been modest (mainly attributable to local actors), the OSCE has been successful in encouraging political contacts and co-operation at all levels in South Ossetia, and has contributed to regional stability through its Border-Monitoring Mission between Georgia and the Russian Republic of Chechnya. With its broad regional membership, field missions, political institutions, comprehensive approach to security, and its wide network of partners in all fields, the OSCE is well suited to be the co-ordination framework for collective efforts in the South Caucasus.

- The principal extra-regional actors (US, EU and the UN), who, on their own, may not have a significant influence on security in the South Caucasus, should seek closer collaboration and synchronized actions between themselves as well as with the OSCE to leverage their collective impact upon the security situation in the region.

Introduction

Ten years after independence, stagnation and instability persist in the Southern Caucasian states of Armenia, Azerbaijan and Georgia. Yet, notwithstanding the region's unresolved conflicts, alleged mass killing, widening domestic income disparity, growing illiteracy, and refugee problems, the Caucasus – in contrast to the Balkans and Middle East – attracts comparatively scant international attention and resources.

With this in mind, the Federal Government of Austria, having made the Caucasus a focal point of activities during its chairmanship of the Organization for Security and Cooperation in Europe (OSCE) in 2000, and the International Peace Academy (IPA) co-convened a high-level international conference *Promoting Institutional Responses to the Challenges in the Caucasus*, on 5-7 July, 2001 in Vienna, to refocus international attention on the fragile Caucasus security landscape.ⁱ

Security challenges in the South Caucasus, conference deliberations clarified, are complex, multi-faceted and often fraught with regional dimensions. Therefore, to bolster regional peace and security, conflict resolution in Nagorno Karabakh,ⁱⁱ Abkhazia and South Ossetiaⁱⁱⁱ require a concurrent and comprehensive effort to develop and reinforce democratic forms of government, promote economic development, address severe poverty and income inequality, secure civic rights, and promote peaceful co-existence among different ethnic groups.

This report, a summary of the main arguments raised at the conference, identifies the principal security challenges in the region as unresolved conflicts, weak institutions and corruption, poor economic prospects and unrealistic assumptions of Caspian energy potential. Reviewing the relative capacity of each regional (Russia, the CIS and the OSCE) and extra-regional (US, European Union and the United Nations) actor to address these issues in the South Caucasus, the report argues that enduring national and regional security lies in the collaborative efforts of local, regional, and key extra-regional stakeholders, especially since the capacity of local actors to overcome these manifold challenges by themselves is severely constrained, although their active involvement is indispensable.

I. Security Challenges in the South Caucasus

Conflict (Without) Resolution

While the negotiated cease-fires between the conflict parties in Nagorno Karabakh, South Ossetia and Abkhazia appear to be holding, it is feared that a culture of conflict rather than a culture of good-neighborliness has been entrenched in the South Caucasus. Several reasons were advanced for this:

- For one, it appears that resolving these conflicts is not top priority for the concerned states. In contrast to international attention, which is almost exclusively focused on conflict resolution, regional states seem preoccupied with other domestic issues such as governance, corruption, and combating organized crime.
- In addition, hardened ethnic and national animosities further impede successful conflict resolution. Hard-line nationalists, for example, were able to obstruct progress in the US-sponsored talks between Armenia and Azerbaijan held in Key West, in April 2001; while, in Georgia, external attempts at confidence-building were spurned by the conflict parties. One suggestion for ameliorating hardened ethnic and political stances was to promote regional economic co-operation, which could promote cross-cultural and transnational interaction. In Nagorno Karabakh, where Azerbaijan has ruled out all economic co-operation with the Armenians without the release of the seized territory, participants stressed that the possibility of economic co-operation between the two nations in third countries could and should be explored.
- While the linkages between the existing regional conflicts were acknowledged, most participants were skeptical that the resolution of one would necessarily lead to the resolution of the others. The Nagorno Karabakh conflict, for example, is often cited as having a particularly substantial impact on the regional political discourse and economic development of all three Caucasus states. It was argued, instead, that any possible salutary effect from resolving the Nagorno Karabakh conflict is likely be negated by the current unraveling of a common national identity in Georgia and Azerbaijan.
- The chasm between the population and political elites further reinforces this culture of conflict. Participants argued that, in some cases, while the people appeared ready for compromise and peace, political elites - who may benefit

politically and economically from the current stalemate - are not. In Georgia, the Abkhazia leadership blocked an OSCE proposal for a joint OSCE/UN human rights office and UN/OSCE fact-finding mission in Gali, which would have laid the basis for the return of the internally displaced refugees. Likewise, the 1992, OSCE Minsk Conference - a forum dedicated to peaceful negotiations of the Nagorno Karabakh conflict - never convened due to lack of support from leaders of the warring parties.

Weak Institutions and Corruption

In the South Caucasus, weak states and their institutions represent another array of security challenges. Independence, some participants argued, had meant merely a transformation in the juridical status of these states rather than any meaningful institutional development. Participants noted several serious ramifications of this phenomenon.

- First, Soviet-era political leaders and state apparatus have remained largely in place. Not surprisingly, these political elites - nervous about the the new political environment - hamper the process of building democracy, respect for human rights, the rule of law, and the protection of minority rights. Furthermore, as they are too weak to discipline themselves to the rigors of the new market economy and unwilling to surrender the many privileges of their political office, these "old guards" perpetuate existing regional conflicts to avoid dealing with heightened domestic expectations common in post-conflict, democratic societies.
- Second, communist-era corruption continues to thrive. Bribery of state officials, including those in law enforcement and the judiciary, continues unfettered while personal and family interests dominate the economy. Sadly, the pursuit of the common interest and development of the economy is considered antithetical to personal profit. On a regional level, narcotics trafficking and related criminal activities are other detrimental expressions of this insidious corruption.
- Third, the absence of a transparent and stable political transition process in the region is also a key concern, particularly with the advanced age of existing political leaders. Nevertheless, participants stressed that external actors ought to focus on encouraging peaceful political competition and a smooth transition

of power, rather than pressuring (and expecting) the South Caucasus states to achieve liberal democracy in the western sense. In fact, the aspirations of all three states for membership in European institutions present the international community with a lever to insist on peaceful political transitions, as well as, to hold political leaders in these states accountable to higher standards of governance.

- Fourth, in the absence of functioning and responsive governments in the South Caucasus, participants noted a continuing reliance upon primordial clan-based coping strategies. Unfortunately, this has further insulated the rulers from the mass of the ruled, reinforcing the longevity of weak institutions. Consequently, in most of the region, the number of genuine economic and political stakeholders is being steadily reduced, while those in the ruling circles amass economic and political spoils.

Obstacles to Economic Rehabilitation

Participants argued that the South Caucasus, although not technically part of the developing world, is in critical need of economic renewal. Without economic rehabilitation, particularly in conflict zones, political development and conflict resolution will remain difficult. The conference examined the principal obstacles to economic development and surmised the extent to which the oil and gas industry can contribute to economic growth and political stability.

- Poor economic performance and an uncertain business environment were singled out as principal challenges to regional economic renewal. The stalled transition from socialism to capitalism has engendered high inflation, excessive public spending, low productivity, unemployment and underemployment. In addition, the limited amount of foreign direct investment, largely concentrated in the energy industry, is insufficient to bring about the needed diversification and transformation of the South Caucasus economies.
- Chronic poverty persists in all three states, while external debt cripples the economies of Georgia and Armenia. Between 1991-1999, purchasing power in all three states sharply declined. In 1991, the number of people classified as poor and critically poor was negligible; today, more than half of the households in the region are classified as poor, with 1 in 5 households deemed critically poor. Armenia and Georgia have accumulated external debt

exceeding one-third of their annual GDP, a situation further aggravated by a deficit in their foreign trade. Without the assistance and conditionalities of the international financial institutions, these countries would have lost capacity to negotiate the rescheduling of their debt. Moreover, participants noted that an inability to allocate sufficient resources to social services, such as education and health, might soon result in increased vulnerability and social discontent among the population and result in greater instability.

- Environmental problems such as wide-scale illegal logging, obsolete waste treatment facilities and inappropriate land use which exposes large territories to severe erosion and degrades important agricultural land also undermine economic development and present serious health hazards. However, the unresolved conflicts are likely to impede meaningful regional cooperation in harmonizing standards and common regulatory systems to control and reduce environmental degradation in the South Caucasus.

Caspian Pipedreams?

Participants emphasized the need to be realistic about the economic potential and political implications of Caspian energy for four reasons.

- First, although Caspian energy will remain an important economic lifeline for the Caucasus states, its overall economic and political impact is expected to be small. Despite initial US projections of 200 billion barrels yet-to-find (YTF), levels comparable to the Gulf States, Caspian oil potential has been significantly revised downwards to a more realistic 50-70 billion barrels YTF. Gas in the South Caspian area, on the other hand, features healthy reserves but a dearth of regional markets. Therefore, the energy industry is unlikely alone to provide the South Caucasus states with either the economic or political leverage to put their houses in order.
- Second, Caspian oil is not competitive. Oil exploration and development costs are considerably higher than other oil producing regions; its support infrastructure, such as offshore drilling rigs, heavy lifting equipment, marine equipment and pipe lay barges, remain deficient. Although additional pipeline systems may, in part, reduce production cost, pipeline construction has been heavily politicized. For example, while major oil companies prefer a shorter, and thus cheaper, pipeline running from Baku to Iran's Gulf outlets.

Kazakhstan, Turkey, Georgia, Azerbaijan and the US have agreed to construct the Baku-Tbilisi-Ceyhan (BTC) pipeline bypassing Russia and Iran -- though not without significant political fallout for attempts to resolve the region's conflicts.

- Third, Caspian oil remains particularly vulnerable to the fluctuations of global oil prices, Organization of Petroleum Exporting Countries(OPEC) decisions to reduce or increase supply on the world market, as well as Russia's oil production and consumption patterns. To illustrate, the 1998 collapse of global oil prices severely undermined the competitiveness of Caspian oil projects and had devastating consequences for the fragile and nascent economic growth in the region.
- Fourth, competing claims over resources in the Caspian Sea also act as barriers to trade and investment. One case in point is the 28 July, 2001 confrontation between Azerbaijan and Iran, in the Caspian, which led British Petroleum to suspend its operations in the Caspian indefinitely. Hence, unless all the littoral states of the Caspian can benefit from energy development, regional stability is likely to remain elusive.

II. Regional Prescriptions to Challenges in the South Caucasus

Role of Russia

There is a commonly held perception that Russia, the major regional power, can significantly contribute to the management of security challenges in the South Caucasus. Most participants argued, instead, that Moscow's ability to tackle security challenges and boost economic development in the South Caucasus is limited. While Russia continues to factor into the policy calculations of regional states, its political and economic clout should not be overestimated. There are three principal reasons for this:

- First, in the last decade, the vertical dependence of the new independent states on Moscow has been eroding in the South Caucasus. Economically, Russia has irreversibly lost its position as the dominant trade and financial partner of the South Caucasian states; while, politically, the diversification of relations of the latter, primarily with the US, Turkey and NATO, has further reduced Russia's influence in the region.^{iv}

- Second, Moscow's long-term regional agenda appears to be dominated by the war in Chechnya. Russian policy towards the South Caucasus, some argued, is narrowly confined to curbing activities emanating from Azerbaijan, Georgia, or Armenia which may complicate its mission in Chechnya.
- Third, its long-term military campaign in Chechnya and Russia's own economic problems will seriously limit the amount of resources -- political, economic and military -- which Moscow can bring to bear on the South Caucasus region. Analysts examining Russia's 2002 draft budget submitted to the Duma argued that the Russian economy, relying on optimistic projections of the Ural blend fetching a net average of \$22 per barrel, up from the \$18 per barrel this year, will probably sputter in the months ahead, due to high inflation.

Nevertheless, some participants pointed to a recent positive evolution in Russian policy towards the South Caucasus. Moscow, they argued, appears to be eschewing unrealistic self-assertive rhetoric in favor of a more pragmatic approach: promoting politically stable, economically wealthy, and Russia-friendly neighbor states in the region. However, other participants were skeptical of this new policy. They argued instead that:

- even with such a policy reorientation, brought about largely by President Vladimir V. Putin, tangible benefits will take time to materialize, as security policy actors within the Russian bureaucracy tend to be conservative and take time to adjust their thinking;
- this policy shift may not, despite arguments to the contrary, engender a greater Russian willingness to act in concert with regional and international actors in tackling security challenges in the South Caucasus, a process many observed as necessary. On the contrary, Russia, in seeking to preserve its "special (or exclusive) role" in the region, projects a tendency towards a unilateralist rather than multilateral approach to conflict resolution. Participants pointed to the adoption of the Caucasus Four Forum (Armenia, Azerbaijan, Georgia and Russia) in 2000, as one example that underscores Moscow's preference for a unilateral approach to regional security.
- ingrained suspicions of Moscow's intentions is unlikely to fade away just because there is a promulgation of a new Caucasus policy on the part of the Putin administration. Some in Azeri policy circles maintain the view that Armenia remains a staunch Russian ally and is still being employed as a

military base to foment conflict in the region. Similarly in Georgia, continued Russian complicity in the Abkhazia conflict is widely believed, a situation aggravated by the slow pace of withdraw of Russian military bases in Abkhazia.

Regional Organizations: Commonwealth of Independent States

Participants weighed the relative efficacy of regional organizations in managing security challenges in the South Caucasus, with most agreeing that the Commonwealth of Independent States (CIS) is not able to positively influence regional political and security developments. However, given that the CIS is expected to serve as one possible forum in the region, participants discussed areas where the CIS may be strengthened.

- The CIS is in need of effective leadership, especially from the dominant regional power, as Russian inattentiveness and policy incoherence towards the CIS in its early days limited the effectiveness of the regional organization. In this regard, some saw the Ukraine-initiated working group convened to analyze the effectiveness of the CIS on 30 November 2001(10th anniversary of the formation of the CIS) in Moscow, as a step in the right direction, although other limitations persist.
- Participants stressed that CIS member states also need to invest in functioning and effective institutions. Currently, the organization is crippled by serious institutional underdevelopment, resulting in few agreements being reached (by consensus), while those collectively taken are frequently not implemented.
- However, institution building is understandably difficult given the relatively weaker economies of the CIS member states. Hence, it was suggested that intra-CIS co-operation should begin on a smaller scale and along functional lines, such as transportation or public health, and that the CIS should seek co-operation with other regional and international organizations, wherever possible.

Regional Organizations: The Organization for Security and Co-operation in Europe

In contrast to the CIS, the OSCE was recognized as the lead actor in South Caucasus. Three elements of the OSCE's activities in the region underscore this observation.

- First, the OSCE's field missions,^v its region-specific work emanating from institutions such as the Office for Democratic Institutions and Human Rights (ODIHR), the Office of the High Commissioner for National Minorities (HCNM), the Office of the High Commissioner for Media Representation (HCMR), the Co-ordinator of Economic and Environmental Activities, and attention afforded to the region by the OSCE Parliamentary Assembly are all reflections of the organization's significant presence and commitment to South Caucasus.
- Second, the OSCE's comprehensive approach to security – encompassing human, political, economic, environmental and regional dimensions -- could potentially address the various challenges in the South Caucasus, though much would still depend upon the willingness of local actors to maximize this flexibility.
- Third, the OSCE also has expressed its readiness to monitor the withdrawal of Russian troops from Georgia. To this end, the OSCE Secretary-General established a voluntary fund aimed at facilitating such a withdrawal in accordance with the Conventional Forces in Europe (CFE) Treaty and the joint statement of Georgia and the Russian Federation of November 1999. Similarly, the OSCE High-Level Planning Group (HLPG) has been planning for the deployment of the organization's first peacekeeping operation in the context of the Nagorno Karabakh conflict, although its eventual deployment is yet to be decided.

While the organization has not resolved existing conflicts, it was argued that the negotiated ceasefires are holding and that the peace processes, though stalled, have not been abandoned. Participants pointed to other encouraging signs in the region such as nascent democratic and economic development, while emphasizing that the status of Armenia, Azerbaijan and Georgia as independent states is far more certain today than it has ever been; especially when compared to the 1920s, when these states were independent for a year before being absorbed into the Soviet Union.

Participants noted that incremental successes have been accomplished by the OSCE in the South Caucasus. In South Ossetia, Georgia, for example, political contacts between the conflict parties have taken place at the highest political level.^{vi} Co-operation between Georgian and Ossetian law enforcement bodies has been initiated, while a rapprochement between the people at the grassroots level has been observed. The successful OSCE border-monitoring mission between the border of Georgia and the

Chechen Republic of the Russian Federation, many at the conference noted, is an example of OSCE preventive action.

Nevertheless, participants focused on two key areas that could be better addressed by OSCE.

- With a membership encompassing all but one of the main players (Iran) in the South Caucasus region, the OSCE is capable of developing a more coherent regional strategy. The nomination of the Personal Representative of the Chairman-in-Office for the Caucasus region, and the Head of OSCE Missions meeting in the Caucasus, which took place in Yerevan on 25-26 September 2000, are seen as important first steps in the right direction.
- Closer co-ordination and co-operation with other regional and international actors^{vii} is important, particularly to ensure that sometimes-divergent organizational agendas and priorities are not played one against the other. To this end, the OSCE - with its network of partner organizations in all fields and an institutionalized approach to co-operation through its Platform for Cooperative Security - is well suited to serve as the co-ordination framework for joint efforts.

III. Extra-Regional Actors

United States

Although the official policy of the Bush administration towards the region is yet to be clarified, most conference participants believed that its role in the South Caucasus is likely to be modest. While the administration is unlikely to declare the region an "area of secondary importance" (particularly in the aftermath of the recent energy crisis in the US), as advised by certain Washington-based think tanks^{viii}, the current focus on Afghanistan is likely to place the states of Central Asia higher on Washington's policy agenda than the South Caucasus. Nevertheless, oil strategists and lobbyists will try to lift sanctions against countries in the region, such as repealing Section 907 of the Support of Freedom Act (which forbids US aid to Azerbaijan because of its civil and political rights record) as well as urge the reassessment economic sanctions against Iran. The success of their efforts, however, is from certain as the new US Energy Secretary Spencer Abraham, portrayed as a close patron of Armenian-American lobby groups, was in the forefront of the campaign to stop the Clinton administration's attempts to annul Section 907.

European Union

Participants noted the diplomatic energy devoted to the region by the EU. This includes attempts to establish political dialogue with all three South Caucasus states through high-level visits, though follow up has been difficult; co-operation with the key regional actors (Russia, the US, Turkey and Iran); collaboration with the OSCE, the UN and the Council of Europe in the area of donor funding; financing of institution and democracy building; support of the Georgian border guards; active participation in addressing the South Ossetia conflict, particularly in arms collection; as well as, proposing the establishment of a Caucasus Stability Pact, a broad framework for settlement of the region's conflict. Notwithstanding these important contributions, the current effectiveness of the EU is constrained by two key factors.

- The EU, as an institution, appears somewhat constrained when one or more of its influential member states have a lead role in conflict resolution processes. For example, the EU remains extremely cautious about its role in the Nagorno Karabakh conflict, where France is a co-chair of the Minsk group, and treads gingerly on the Abkhazia issue, where the United Kingdom has a key role. However, some participants expressed optimism that the difficulties of arriving at a "Union" approach in the security realm (a new area of activity for the EU) will abate with time.
- While the South Caucasus is of strategic interest to the EU, the latter's existing preoccupation with the Balkans will possibly limit its desire and ability to dig deeper into its pockets to help the region. The EU will hardly have the resources or the political energy to implement a large scale Stability Pact for the Caucasus alongside its other projects, linked to the Balkans, the Northern Dimension (Baltic Sea region) and the Mediterranean.

To overcome these hurdles, some participants argued, the EU should seek closer co-operation with other organizations playing a role in the region. Co-operation in country needs-assessments is one opportunity to recalibrate respective organizational policies to greater effect. In fact, the EU initiative for Democracy and Human Rights, which was funded by the EU but implemented by the OSCE and the Council of Europe, is one such example of successful collaboration in the South Caucasus.

United Nations

While the UN has acquired significant experience in peacekeeping and now has several applicable mission models that could be useful to the region, the UN has a comparatively small peacekeeping role in the South Caucasus. The absence of an active and vocal Caucasus constituency within the UN system, and the possible consideration accorded to Russian sensitivities by other Council members, some argued, limited the UN's involvement in the South Caucasus to the Georgian-Abkhaz conflict. The United Nations Observer Mission in Georgia (UNOMIG)^{ix}, established to monitor and verify the implementation of the Agreement on a Ceasefire and Separation of Forces, is supplemented by the United Nations office for the protection and promotion of human rights in Abkhazia, Georgia.^x Thus far, modest progress has been achieved by UNOMIG, as even the Group of Friends of the Secretary-General for Georgia could not reach full agreement on the draft paper concerning the distribution of competencies between Tbilisi and Sukhumi, a required basis for further negotiations on the future political status of Abkhazia.

Notwithstanding this setback, it is important to note that the UN serves other important functions in the region and its role there should be sustained. For one, the United Nations International Drug Control Programme's (UNDCP) role in the improvement of border control measures and law enforcement capacities to interdict the shipment of illicit drugs, emanating mainly from Afghanistan, has the effect of addressing some of the adverse political, economic and social consequence of criminality in the region.^{xi} Nevertheless, even more support is required for this UN function in the region as some of the UNDCP's programs, such as the Regional Programme on Technical Co-operation for the entire Caucasus region, though approved for implementation, still lack funds and donor interest.

Next, the presence of UN military observers provides the Russian-led CIS force with a measure of credibility. This is especially so since past Russian involvement in stimulating some of the major cleavages in the region is likely to render Moscow, at best, a controversial regional actor, now and in the foreseeable future.

Given the limited attention and resources dedicated to this region by UN member states, participants believed that effective UN activities in the region lie in closer collaboration and synchronized actions, particularly between the UN and the OSCE. Many at the conference cited the Joint Assessment Mission to the Gali District, carried out under the aegis of the UN and within the framework of the UN-led Geneva process in November 2000, as one example of productive co-operation.

Conclusion

The management of security challenges in the Caucasus is likely to be affected by developments following the 11 September 2001 terrorist attacks on America, particularly the current US-led reprisals on terrorist networks within Afghanistan. The already limited resources dedicated to the South Caucasus may diminish further, in light of current focus on Central Asia. For example, a long-term program of US-aided economic development towards Central Asia is being initiated. The fund for reconstruction and recovery in Central Asia will see the US making an immediate contribution of US\$ 1 billion contribution to the region, with a promise of US\$ 320 million in aid to Afghan refugees.

Hence, it is in such an environment that the central message of the conference remains salient. Security challenges in the South Caucasus must be tackled in a sustained and comprehensive fashion, leveraging the combined efforts of local, regional and international actors and organizations to better effect. In this regard, the decision on the part of Russia to move politically closer to the West, in recent weeks, may have a future positive impact on their respective roles and contributions in tackling security challenges in the South Caucasus.

NOTES AND REFERENCES

ⁱ The presentations and the discussions of this seminar focused on the South Caucasus states of Armenia, Azerbaijan and Georgia.

ⁱⁱ In early 1988, a dispute broke out between Armenia and Azerbaijan over the status of the mostly Armenian enclave of Nagorno Karabakh in Azerbaijan (transferred to Azerbaijan in 1921), when its leaders voted to reunite with Armenia, sparking an ethnic conflict between Armenia and Azerbaijan that in 1993 led to outright war. A fragile cease-fire has held since 1994.

ⁱⁱⁱ In 1992, the local authorities in the Abkhazia and South Ossetia attempted to separate from the Republic of Georgia. On 14 May 1994, after several faltered cease-fires, the Georgian and Abkhaz sides signed the Agreement on a Ceasefire and Separation of Forces. The parties agreed to the deployment of a peacekeeping force of the Commonwealth of Independent States (CIS) to monitor compliance with the Agreement, with the UN monitoring implementation of the agreement and observing the operation of the CIS force. In South Ossetia, an established OSCE mission is working towards the creation of a broader political framework, in which a lasting political settlement between South Ossetia and Georgia may be achieved. In response to the fluid situation along the 81-kilometre stretch of the Georgia-Chechen border, the OSCE established a border-monitoring mission in 15 December 1999 to ameliorate tensions from the Chechen conflict.

^{iv} Probably, the most significant sign of this new reality is the policy of the Armenian leadership, which does not anymore rely on the explicit military alliance with Russia and seeks to improve relations with other regional powers, most notably with Turkey.

^v The OSCE has four missions operating in the region- in Tbilisi, Yerevan, Baku and the border-monitoring mission between Georgia and Russian Republic of Chechnya.

^{vi} Examples of this high-level contact are the 6th meeting of experts held in Vienna-Baden in 2000 with the support of the Austrian Chairmanship of the OSCE and the 7th meeting of experts held in Bucharest in July, 2001.

^{vii} The main partners of the OSCE in the Caucasus are: the United Nations and its specialized agencies, the World Bank, the International Monetary Fund, the European Commission, the Council of Europe and the International Committee of the Red Cross.

^{viii} See Caucasus Report, 19 January 2001, Volume 4, Number 3. <http://www.Rferl.com>

^{ix} UNOMIG established on 24 August 1993 by Security Council resolution [858 \(1993\)](#), and expanded by the Security Council, by its resolution [937 \(1994\)](#) of 27 July 1994 has an authorized strength of 136 military observers. Most recently, the mandate of UNOMIG was extended until 31 January 2002 by Security Council resolution [1364 \(2001\)](#) of 31 July 2001.

^x Established on 10 December 1996 in accordance with Security Council resolution 1077 (1996) of 22 October 1996. It is jointly staffed by the Office of the High Commissioner for Human Rights (OHCHR) and the OSCE. The Human Rights Office forms part of UNOMIG and reports to the High Commissioner for Human Rights through the Head of Mission of UNOMIG.

^{xi} To this end, the UNDCP facilitated the preparation of a Memorandum of Understanding on Co-operation in Drug Control and Activities against Money Laundering between the Republics of Azerbaijan, Georgia, the Islamic Republic of Iran and UNDCP.

**WELCOME ADDRESS OF HIS EXCELLENCY,
THE MINISTER OF DEFENCE OF THE
FEDERAL REPUBLIC OF AUSTRIA,
MR. HERBERT SCHEIBNER.**

"You should not laugh upon the world"
"You should not cry upon the world"
"You should understand the world"
(BARUCH BENEDICTUS SPINOZA)

Opening and Thanks

- The Vienna Seminar of the International Peace Academy is held for the 31st time.
- The excellent co-operation among the International Peace Academy, the Austrian Ministry of Foreign Affairs, the Austrian Ministry of Defence, the Diplomatic Academy and the Austrian National Defence Academy already has tradition.
- The International Peace Academy is a highly important platform for the discussion of security problems in preparation of political decisions.
- During the last two years, the seminar has developed from an information/training/simulation event on an operational level to a high-level expert conference.

The Austrian Role in International Peace Operations

- In the face of new security challenges, new strategies and means must be found. Due to their multi-faceted personnel, staff and hardware resources, armed forces play a decisive role.
- As the recent past has shown, the complexity of the new risks and the comprehensive character of the tasks in international crisis operations can no longer be handled by a single international security institution alone.
- The United Nations in its role as a global organisation has the primary responsibility to safeguard global peace and international security. Only the co-operation of a number of international organisations that complement each other has proven to be successful.
- In addition to UN operations, Austria supports all sustainable missions legitimated by the OSCE or the EU. From our perspective, the legitimate point of reference among all security institutions is the spirit of the Charter of the UN.

- Generally, the role and importance of regional organisations and procedures has increased over the last years. For the United Nations, the calling up and use of regional military structures and capabilities - like the Lead Nation concept, ASEAN, OSCE, NATO, or the reaction forces being set up by EU - will become increasingly important.
- The role of Austria in international peace operations has changed in the '90s: The number of missions has risen from three to now fifteen, deploying about 1,400 troops. A change has also taken place in the quality: from traditionally lightly armoured blue-helmet UN missions in the Middle East, to more robust, complex and comprehensive missions mandated as peace enforcement in south-eastern Europe.
- Since 1960, more than 45,000 Austrian soldiers have participated in UN operations. Austria is part of the "Stand-by-Arrangement-System" initiated by the UN Secretary-General, and contributes to the multilateral "UN-Stand-by Forces-High-Readiness-Brigade" (SHIRBRIG).
- That the responsibilities under the UN Charter have priority over the Austrian concept of neutrality has been undisputed since the end of the Second World War.
- In addition, the Austrian Constitution permits our country in its de facto status as a non-aligned one, to participate in the full spectrum of crisis management operations of the EU, and this includes combat operations, as well as peace operations under NATO command. For the Austrian contingent deployed in Kosovo, there are therefore no restrictions with respect to the KFOR rules of engagement.

Security-political Criteria for the Austrian Military Engagement in the Caucasus.

- Over the last months, the unresolved conflicts in the region have returned to the attention of the public interest. Central conflict regions are Chechnya, the conflict between Abkhazia and South Ossetia in Georgia, as well as the conflict in Nagorny Karabakh between Azerbaijan and Armenia. The Federal Government supports the efforts of the OSCE and the UN for a peaceful settlement of these conflicts.
- Another stabilising factor is the OSCE border control mission between Georgia and Chechnya under command of an Austrian officer, MG Lubenik. In addition, Austria has deployed two UN Observers to Georgia. MG Lubenik and COL Wohlgemuth, who has recently been Deputy Commander of UNOMIG are participants at this conference.

- The possible future deployment of Austrian troops in the Caucasus depends on the following six criteria:
 1. Credible willingness of all conflict parties to participate in a comprehensive and peaceful conflict resolution process.
 2. Basic correspondence with Austrian security interest.
 3. Existence of a mandate, and a clear definition of political and military aims and of the chain of command.
 4. Existence of a comprehensive political, military and economic strategy of the EU within which Austria will structure its engagement in the Caucasus.
 5. A multinational operation including Russia and the CIS with credible military powers and task sharing, and
 6. A far-reaching internal political consensus and the guarantee of financial means.

- The "Stability Pact for the Caucasus", which was initiated by the OSCE and presented in March 2000, attributes a special role in the conflict solution to the CIS, the EU, the USA, to Turkey and to Iran. The future economic development in the region is the first requirement. A further positive signal was the return of the OSCE Assistance Group to Chechnya in June 2001, which will contribute considerably to improve the humanitarian situation in Chechnya.

- Only through the supportive and co-operative role of the OSCE, the UN, the CIS, the EU, the USA and of the regional powers as well as of the three South Caucasus countries can peace and stability in the Caucasus be restored. Only through financial means from international investors can the urgently needed economic restoration be initiated which should lead to long-term stability.

Final remarks:

Exchange of opinions, realistic tackling with differing views, understanding for opposing positions, trust and mutual esteem are the prerequisites for future solutions.

The International Peace Academy is a perfect platform to contribute to these aims.

I wish the conference an outstanding success.

THREATS TO THE POLITICAL AND SOCIO-CULTURAL FABRIC OF THE CAUCASUS

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I. Introduction

The Southern Caucasus is a land of profound traditions, long history and natural beauty. Its mountains, rivers and coast-lines have observed human presence for over a million years. In fact, the valleys of this region represented and represent a natural way of encounter and communication among three continents: Africa, Asia and Europe. South to the Tiger and Euphrates rivers and the Arabic peninsula, East into the Caspian region, North toward Central Europe and Siberia, and West into the Black Sea and Mediterranean regions the Caucasus is the natural convergence of all routes. In fact, it is the only land passage among these territories. It is therefore natural that at the dawn of human presence on earth, the first primates coming from Africa transited these valleys in their quest toward new lands and opportunities.

Over hundred of thousand of years, the first humanoid presence in the region evolved into human settlements that left abundant vestiges of ancient civilisations, vestiges that are disseminated everywhere in these mountains and valleys. The Caucasus, thus, became the centre of a system of communications and a pole of civilisation that progressed over the centuries combining land and sea transportation to favour exchange of cultures and promote trade of commodities.

Recently, the same scheme became the fulcrum of a complex system of corridors that in today's global economy are better known as TRACECA. TRACECA is the highway of modern trade, combination of air, land and sea transportation exchanging commodities, technologies and traditions, facilitating people contacts as ancients traders did over the centuries with precarious vessels, horses and caravans of camels.

All these exchanges contributed to the development of these regions. Over centuries, merchants and armies in their endless travelling through these territories have marked and enriched the Caucasus even though they also brought with them suffering, destruction and misery. However, it is worth noticing that the people of these regions, while assimilating new elements from other civilisations, managed nevertheless to preserve the patrimony of their cultural heritage and traditions in the presence of a complex diversity of ethnical backgrounds.

Such richness and opportunities went not unnoticed. Along history, ancient and modern powers fought to exert control over these lands and their trade and passages. On occasions, as a consequence of invasions, communications were blocked and people remained isolated. However, these populations preserved memories of their past and of the natural vocation of these territories until they managed to restore independence and re-establish passage through their lands for people and commodities.

Ancient history describes that Alexander the Great touched the Caucasus in his campaign to conquer access to the Indian Ocean. Afterward, Greek and Romans founded bases on the Black Sea coast, in what they considered the extreme border of their area of influence, to extend control over trade with the eastern world. Christianity reached the Caucasus in the 4th century with missionaries coming from what it is today known as Iran and Turkey. Afterward, Bisantium and the Turks fought for centuries to establish control over the Caucasus until in the 12th century the Mongols occupation put an end to Western influence in the region. Between the 15th and 18th centuries, the Ottoman Empire and Persia re-established control over the Caucasus. During those years, Islam managed to penetrate the region and convert most of local population with the exception of the Armenian, Georgian and Ossetian that preserved their original Christian faith. In the 18th century the Russian Empire became an active player in the area finally conquering the entire region in the 19th century, an occupation that lasted until the 20 century.

It is worth noticing that Mongols, Persian, Russian and Turks fought over the control of the Caucasus for reasons that are at the root of many of the problems confronting today the region. In ancient wars as well as in today's fighting local populations defined their alliances based on ethnical and religious differences. The ethnical and cultural diversity of the region and its central trading and service roles, elements that by them are a blessing in terms of potential for development are also among the greatest threats to peace and stability.

The positive or negative valence of each one of these elements depends in great measure on the way in which the internal and external parties involved manipulate them. In the past, oriental spices and silk were the central commodities for trade between east and west. Today, oil and natural gas have taken their place. Commodities and natural product aliment fighting among people interested in protecting their exclusive right to exploit these potentials. All differences among people are sufficient justification to exclude the diverse from their access.

However, such animosities are not intrinsically belonging to the genetic patrimony of the people even though memories of past violence and atrocities are present in the collective conscience of the Caucasus. In various occasions, objective status of depravation and limitations were exploited to manipulate consciences and justify use of violence to solve problems. All external powers have taken advantage of the situation to establish their domain over the region. To move in a different direction is necessary to define a new approach capable to identify those obstacles, understand their roots and causes to remove them and propose a different model of development. These, in my opinion, are the challenges and these are the unresolved threats that if left without a proper answer, will continue to destabilise the region. These threats are: poor economic development and increased poverty, environmental degradation, corruption and break down in the rule of law, uncertain progresses in the process of foundation of the State.

II. Poor Economic Development and Increased Poverty

Poor economic performance is due to three different causes that are difficult to separate, even though theoretically independent and not necessarily related. The first cause is structural to the economy, high inflation, excessive public spending, low productivity and unemployment and underemployment. The second is related to the transition from socialism to capitalism, the difficulties in achieving shifts in economic policies due to the break down of the old Soviet production and market systems. The third is related to internal conflicts that created unnatural barriers to trade, destruction of infrastructures, massive displacement of population and human and capital losses.

No compatible data exist that could compare economic development during Soviet times with the present reality of the economies of the three republics. However, it is possible to indicate that purchasing power parity estimations between the years 1991 and 1999 indicate sharp declines in per capita purchasing power parity in all three countries. The decline was between 22 % in Azerbaijan and 52 % in Armenia. In addition, this decrease has been unevenly distributed with large parts of the population progressively falling below poverty line and only small minorities appropriating large part of the national wealth. Today, in all three countries more than half of the households are classified as poor while one family on five is considered critically poor incapable to provide for the basic needs of its members. In 1991, the percentage of families classified as poor or critically poor was negligible.

In addition, with exception of Azerbaijan, the other two countries have already accumulated external debts that are more than one third of their annual GDP. In parallel, foreign trade is deficient with imports exceeding exports, thus being unable to generate

resources needed to service the external debt. As a consequence, without assistance and conditionalities of the International Financial Institutions, these countries could have not negotiated rescheduling of their debts and would have lost the capacity to import basic inputs necessary to compensate various deficits of their economies in critical sectors such as food and energy. The necessity to balance internal revenue collection, public expenditures and debt service will condition development and growth for many years to come.

Another important negative consequence of external debt is budget incapacity to allocate sufficient resources to social services, debt servicing in many cases exceeding expenditures for health and education. In turn, low social spending contributes to increased vulnerability and social discontent. Last year draught in Eastern Georgia demonstrated that the State and poor families victim of the calamity had totally lost their elementary coping capacity to respond to such acute situation. Would it not have been for a massive and speedy delivery of external assistance, many families would have had no other means of survival than selling their few remaining assets with devastating consequences for the future of the country.

Foreign investments in areas different from oil and gas exploitation and transportation are still limited and insufficient to bring the necessary changes in the economy. As a consequence, modernization of production technologies and introduction of international marketing know-how are deficient, leaving most of the three economies in the control of internal forces that continue to manage them as they did during the Soviet era. Personal and family interests were and continue to be exclusive top priority for these individuals who manage their business with the same mentality used when they were in charge of large state enterprises. Pursuit of common interests and protection of the system are not considered important since they are the State's responsibility perceived as antagonistic to personal and private interests. Non payment of taxes and other dues is not considered by the almost totality of these managers a criminal behavior, but a smart decision.

Young skilled professionals and less qualified work labor are attracted by real and sometime dreamed opportunities they expect to find abroad, particularly in western countries in Europe and the United States. Permanent immigration is certainly a mayor problem in the Caucasus that continues to witness the emigration of its most talented youth towards more developed countries. Some might return if the internal situation will improve, some will remit important foreign exchange to their families, but overall the balance for the economies will be negative because a generation gap will slow down prospective for growth and development.

III. Environmental Degradation

During centuries, the valleys of the Caucasus were renowned for the richness of their crops and the beauty of their landscapes. However, in recent history the situation has dramatically changed and various environmental threats became common in the region. All these threats have to do with quality of life and sustainability of development.

Access to low cost fuel energy is an issue in all three countries. In absence of secure supply of energy at an affordable cost as in recent past, the population resorted to large scale logging of conifers and other variety of trees in fragile mountain woods. In Armenia and Azerbaijan more than fifty percent of household energy during the past five years has come from fuel wood. In Georgia, large-scale logging is also done for illegal export to Turkey. In each country, million of metric tons of woods are cut every year with permanent damage to mountain eco-systems putting at risk bio-diversity and increasing the green gas effect. If illegal logging is stopped now, it will require close to two decades to re-establish the same level of forestation that existed at the moment of independence ten years ago.

Due to obsolete wastewater treatment facilities discharged wastewater poses the highest water pollution risk in the three countries. This problem is most critical in the transboundary Kura-Araks river basin where almost seven million people live and depend on the quality of these resources. Pollution from organic substances measured in these rivers exceeds international standards by 1.5 times. Azerbaijan is the country most affected by the problem per capita wastewater with five times more than the other two countries.

Despite considerable decrease in industrial activities that in the past had a positive impact on the quality of air, urban air pollution is again on the rise due to increased utilisation of motor vehicles for public and private transportation. Insufficient regulations or not applied; rules for control of emission of exhaustion pipes are at the root of the problem that is now subject of intervention and assistance with the support of GEF funding. However, no regulation will have any practical effect in reducing air pollution if proper mechanisms of control and monitoring will not be in place to assess quality of air in urban areas.

Finally, inappropriate land use and heavy pressure over marginal lands exposed large territories to severe erosion degrading agricultural land. Soil erosion in Armenia affects 60% of agricultural land and total losses are estimated at over 8 million tons a year, or 0.3 tons per hectare per year. In Azerbaijan, 80% of mountain areas and 45% of agricultural land are exposed to erosion; while in Georgia over 10 million hectares of

agricultural soil is at risk every year. Taking into account the importance of agriculture to the future development and immediate subsistence of the rural population this environmental problem represents a significant threat to internal stability.

Similarities in environmental problems that undermine economic development and pose health risks to the population demand responses that require regional co-operation in harmonisation of standards and introduction of common regulatory systems. Unfortunately, persistence of unresolved conflicts hampered the adoption of most needed measures to control and reduce environmental degradation in the Caucasus.

IV. Corruption and Break Down in the Rule of Law

It is common knowledge that aspects of private entrepreneurship existed under soviet rule in various legal and illegal forms. In many cases, managers of public enterprises maintained the official façade of their business that in reality were administered as private endeavour by bribing State officials responsible for the supervision of their work. Rigidities of planned economies with their five years plans, pre-established production targets and guaranteed absorption of production made that paradox possible. It should not come as a surprise that the same system continues to be enforced after the collapse of the socialist economy.

In many aspects, little has changed with introduction of capitalism for these firms and their de-facto owners who managed to acquire legal property of these enterprises often at a pure nominal cost. The same persons they were bribing before or their substitutes are still there demanding money to allow them to work without state interference. In the past it was a matter of property and ownership of profit, today it is a matter of payment of taxes to an entity that does not give back anything or very little in exchange for the taxes collected. Partial justification for the behaviour of these representatives of the State is that either they are not paid or their salary is just nominal. Necessity, they claim, is the factor that incentives their actions.

However, it is important to underline that at petty corruption at the bottom of the line normally corresponds for greater corruption at the top, corruption that profits from allowing the situation to continue as it is without taking actions to remove causes and reform the system. Everybody in the system profits in one way or the other including the victims of the corruption. The only real victims are those excluded by the system, those that year after year are becoming poorer and poorer losing their dignity and capacity to survive.

The small size of the economies of the region and the scarce interest demonstrated by foreign investors to enter has allowed the continuation of a system that is based on monopolies and cartels of producers associated to guarantee continuation of their control over the market. Integration into the global economy might assist in finding the alliances needed to subvert the system.

It is also worth noticing that the system can only operate with the active collusion of all law enforcement agencies. Judiciary, prosecution and police forces are the pinnacle of the structure, the element without which the entire scheme will fail. The failure of these important branches of public administration to exert their duties in the best interest of the citizens they promise to protect is a threat to stability and, if not properly addressed, will compromise the development of the Caucasus.

V. Reform of the State

Ten years ago, the world observed the sudden disintegration of the Soviet Union. Many internal and external factors contributed to that historic event, but it is possible to state that even if its happening was expected and hoped for by many in and outside the USSR, nobody could really anticipate its coming and be prepared for it. People's negative attitude versus the system was probably the strongest factor that over the years progressively eroded the capacity of the system to sustain its cost and regenerate in more advanced forms. However, this phenomenon was not politically organised resistance, but a spontaneous, disorganised and substantially non-violent opposition that ended from within all resources capable to oppose change.

Sometimes in matter of hours, the political system evolved from exclusive attention to collective values to mechanisms that placed individual rights at the centre of politics. It was not an organised revolution or conquest of power by an opposition capable to assume responsibility and fill the vacuum created by the ousting of previous political leadership. It was the sudden collapse of a structure that could not detect and modify its structural deficiencies. All points of reference changed, but most of the State apparatus remained in their place without clear understanding of what happened and without references and tools to address the new reality.

The immediate years after independence were characterised by chaotic decisions, prevarication of the rights of the majority by unscrupulous individuals or organised groups, real criminal gangs, that looted what was left of the State in almost total absence of a recognised central authority. In absence of a new clear structure of State different

from the dictatorship of the proletariat defined by Lenin and Stalin, people followed primordial political structures that were close to traditions in the region. Family and friendship became the only accepted values. Nationalistic rhetoric prevailed in the administration of the State. Participation, democracy and respect for basic rights remained empty words. Individuals returned for protection to basic social structures that replaced the State and after ten years continue to represent the principal reference and interest for most of the people.

Almost immediately, political figures with past experience with the Soviet system emerged as the only defence against anarchy and managed to attract around them members of the past administration and the by then weakened communist party. However, to gain control over the situation they had to establish political alliances with some of those groups promising them political and financial advantages in exchange for their support that in many cases implied extensive use of force to oust opposition and other criminal gangs.

As a consequence, these new States still suffer from the insecure basis on which they were built. Probably, there were no other solutions available in face of the chaos and anarchy that prevailed at the collapse of the USSR. It is nevertheless important to understand what we are dealing with and assume a more realistic approach that takes into account not only what must be done, but also what can be done. Failures to understand and, even more serious, misinterpret the reality of what it is possible to do represent the greatest political threat to the fabric of the nascent Caucasus States. History of these regions has observed over centuries the presence of foreign invaders that oppressed their traditions and cultures and did not allow development of autonomous State structures. The natural defence then and still now was to entrench in basic social structures that helped individuals survive and progress. In the Caucasus, Modern State has still to demonstrate its utility and convenience for the people. This is the challenge ahead. If not resolved, it will become the threat that will end up destroying all three new states.

CURRENT SITUATION WITH RESPECT TO UNDCP REGIONAL AND SUBREGIONAL COOPERATION IN THE CAUCASUS

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The countries of the Caucasus region are increasingly exposed to the drug problem. The drug threat is largely emanating from Afghanistan which, until recently, had been the main world producer of illicit opiates.

Opium production has considerably diminished in Afghanistan this year, and the current Taleban's ban on opium poppy cultivation seems to be effectively implemented.

However, the continuous flow of Afghan opium, heroin and morphine-base to the illicit markets in the region, inter alia in the Caucasus countries, and the remaining high rate of seizures on Afghanistan's borders suggest that sizable stocks of opiates had been accumulated inside the country. Consequently, the Afghan drug threat to other countries remains no less serious than before.

The illicit drug traffic is threatening peace and security, and undermining the economic and social stability of many countries in the region. In order to contain, as much as possible, the flow of drugs from Afghanistan, the United National International Drug Control Programme (UNDCP) is strengthening control measures on the borders of countries neighbouring Afghanistan and improving the law enforcement capacities to interdict the shipments of illicit drugs and precursor chemicals.

UNDCP is also assisting other countries affected by the illicit traffic in Afghan drugs. Under a two-year drug control multisectoral assistance and institution building project, UNDCP provided training, equipment and upstream policy advice to the Government of Azerbaijan. The project further assisted in elaborating the joint course of action aimed at the strengthening of drug enforcement and drug prevention capacities of the country, as well as the formulation of measures for impeding illicit drug trafficking across the borders and through Azerbaijan.

In Armenia, under the Japanese Drug Abuse Prevention Centre (DAPC) grant scheme, UNDCP provided funds to the "Women's Social Organization Gloria", in support of a project aiming at promoting and distributing advertising material with the framework of

the "Drug Abuse Resistance for Teenagers via Sport (DARTS) Programme". The awareness-raising campaigns harnessed a diverse mix of television, video, radio, Internet and other forms of media, to deliver anti-drug messages to the general public, especially the children and teenagers.

Similarly, the NGO "Georgian Voluntary Society" (SASOEBBA) received a grant award to create an up-to-date prevention and rehabilitation centre for drug addicts in Tbilisi, with the objective of stabilization of remission, psycho-rehabilitation and social rehabilitation.

Within the regional framework, UNDCP assisted the Economic Cooperation Organization (ECO) in creating a Drug Control Coordination Unit (DCCU), which is now fully operational with the involvement of Azerbaijan. A second phase of the project to support the DCCU is being formulated, to be launched in 2001 with a financial contribution from the European Commission.

Measures to counter the growing drug abuse in the region are also introduced and regional projects to address the spread of HIV/AIDS among the intravenous drug abusers, as well as the prevention of drug abuse and the treatment and rehabilitation of drug addicts, are currently being formulated to be launched in the near future.

UNDCP's Regional Programme on Technical Cooperation for the entire Caucasus Region had been approved long ago, but could not be launched due to the lack of funds and donor interest. In May 2000, with the assistance of UNDCP, the European Commission initiated a needs assessment mission, which resulted in the formulation of the "Southern Caucasus Anti-Drug (SCAD) Programme". The overall execution of this Programme is being undertaken by UNDP, and UNDCP has been requested to provide assistance in the implementation of a number of activities.

Accordingly, UNDCP continues to promote, through its activities, the regional cooperation of the countries in drug control. Subregional cooperation takes place at the bilateral level through drug control agreements and at the multilateral level through the activities of regional organizations. UNDCP strives to complement such activities by supporting the adoption of memoranda of understanding and related subregional projects, to promote subregional cooperation arrangements through technical consultation and by providing venues and opportunities for the sharing of information and expertise.

In this respect, UNDCP facilitated the preparation of a Memorandum of Understanding (MoU) on Cooperation in Drug Control and Activities against Money Laundering between the Republic of Azerbaijan, Georgia, the Islamic Republic of Iran and UNDCP. Similar to the MoU signed in June 1999 by Armenia, Georgia, the Islamic Republic of Iran and UNDCP, this MoU creates a framework for a joint response to the drug problem, which will include strengthening of cooperation in the field of combating illicit trafficking in narcotic drugs, psychotropic substances and precursors, as well as in the field of drug demand reduction and in activities against money laundering.

The drug threat is a global menace that does not recognize politics, boundaries or cultures, and a challenge that can be met only through a coordinated global response. Together we can do it. We believe that we can make substantial progress in countering the drug threat to the Caucasus Region with the necessary political commitment to drug control from the international community and international organizations.

**CHALLENGES WHICH LIE AHEAD:
COUNTERPRODUCTIVE ASSUMPTIONS ABOUT THE THREE CAUCASIAN
STATES.**

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Nearly ten years have passed since the countries of the former Soviet Union received their independence. The impending tenth anniversary is a good opportunity to look at how these states are managing the state-building process, and in particular what symbolic or ideological defenses they are offering for their actions. States need little protection from their successes, but are always seeking ways to explain away their various failures.

Some of these excuses are woven by the leaders of these countries, others have developed from the ground up, and been embraced by rulers who are reluctant to confront war weary populations. Taken together they may have become a series of assumptions that are serving as a focus for state-building efforts in the region. This paper looks at the "myths" that the leaders of these newly independent countries are putting forward to explain some of the disappointing results in both economic and political reforms, and how the international community is sometimes inadvertently a party to these processes of self-justification. Given the theme of the conference, it obviously looks at these myths from the vantage point of the specific economic, political and social problems in the Caucasus region.

Assumption #1: Independence is a political solution; that independence solves something by definition.

In reality, independence is simply a change in juridical status, albeit a critical one, but it does not solve problems as much as it changes who can solve them. The only difference for the masses is a critical, psychological one and the benefits and hardships it provides are ephemeral.

Whereas at some places people got breathing room in the year or two just before the demise of the Soviet Union, life in the Caucasus became enormously more complex. Independence led to renewed conflicts throughout this region, none of which yet have been satisfactorily resolved. As a result of these struggles for independence, the myth that independence would mean a better life for people has never been fully tested.

Instead the years of fighting have only served to strengthen the myth. Now many people expect that after peace is attained, life will begin to rapidly improve, but the peace must be a nationally reaffirming one for this to be true. In most of the post-Soviet states, after 10 years of independence, the poor are growing poorer and recovery is beyond their reach. This situation has made the region's rulers nervous about democracy building, and in some places nervous about economic reform as well, as even limited economic reform increases the demands for political empowerment.

Assumption #2: International organizations will guarantee that the independence of these states is secured.

Nowhere in the former Soviet Union have international institutions been called upon to play a larger role than in these three newly independent states. These states are going through an important learning process about what the limitations are of the various international institutions active in the region. Such institutions cannot make peace when any of the parties to a conflict – whether it be formal or informal – are unwilling or unable to show flexibility. International institutions are able to offer only limited security guarantees in remote parts of the world – and do much better at monitoring the peace than they do at protecting it. Moreover, international institutions can help feed economic and political reforms, but the capacity for assistance is limited, and assistance comes at a high price in debt repayment when it is not coupled with systemic economic reform.

Assumption #3: The Caucasian States' problems are caused by the behavior of regional hegemons, in this case Russia, and can be solved by Russia as well.

Part of the reason why international institutions were appealed to by these countries is because of Russia's complex posture in the region. Russia is certainly seen by many as having helped stimulate the major cleavages that wreck the states of this region, but the source for them is found in the states themselves or in decisions made by earlier generations of Soviet rulers. Also the current regime in Russia is redefining its agendas, as it comes to recognize Russia's own inherent weakness, and the Russian state is simultaneously gaining control of "maverick" actors.

Whereas seven or eight years ago, Russia really did a great deal to set the economic and political agenda for these states, now Russia is grappling to define a new role for itself – a role which still protects its own national security but also recognizes the *de facto* as

well as *de jure* independence of its Caucasian neighbors. At least there is growing reason to hope that this will be true. This is leading to redefined bilateral relations with Russia and these in turn are contributing to the changing understanding of the role of international institutions and international investors. And as these expectations grow more realistic, the bilateral relationship with Russia becomes more important. Russia also still serves as an important source of employment for these states, all three of which still depend upon remittances from citizens or relatives.

Assumption #4: Regional organizations—those that exclude as well as those that include Russia—can help solve common problems.

While regional initiatives, such as GUUAM or the CIS economic community (recently renamed) of which Armenia is a part, have potential to stimulate trade or new routes for commerce, regional organizations made up of weak states are in effect weak organizations. Obviously the three Caucasian states would benefit from a strengthened regional economy, and its absence compounded by lingering dependencies and partially dissolved ties with Russia have introduced further hardship. Regional organizations in which members are unable to freely trade with one another due to currency restrictions do little to facilitate rapid growth or draw in interested actors to the region. The success of GUUAM as well as the TRANSECA transport project both depend upon the market potential of the entire region being expanded.

Assumption # 5: Power need not be shared and that political succession can be successfully stage-managed to protect the interest of a ruling family or a ruling elite.

While these states have done better than the newly independent states in Central Asia and even some that have both feet firmly planted in Europe, over the past decade the states of the region have had a very uneven level of success in developing political institutions that could regulate political competition and to integrate a new generation of potential political leaders into positions of responsibility.

It is important to remember that in recent years a number of the region's leaders have aged and in some cases become noticeably physically frailer, but the pace of institutional development in these countries has slowed, despite outward signs that are sometimes to the contrary. The fact that all three countries are actively seeking (and being granted) membership in European institutions provides a real opportunity for

members of the international community to press hard and hold these leaders to higher, and European, standards.

Assumption #6: There is only limited populist support for the development of democratic institutions.

Popular indifference is not to blame for the lack of progress in establishing democratic regimes in the Caucasus as much as the change of strategies of the regimes' leaders. In reality, it is the leaders of some of the countries in the region who have grown tired of democratic principles far more rapidly than the people themselves. Some leaders have grown more tired than others. Armenia is the only one of the three to have experienced a peaceful transition.

Assumption #7: Victors decide all, but political and economic change will eventually make winners of everyone.

Over the past five years, in some parts of the Caucasus the ruling elite has been honing their "winner-take-all" philosophy. But the societies they rule are complex, and filled with populations that are reluctant to accept a loss of the benefits that they are used to enjoying, and replete with former political and economic stakeholders who are used to being accommodated.

People in the Caucasus are being asked to put their faith in what in some cases is being termed nearly the boundless wealth of future oil revenues, in others the hope of transit fees, and finally in peace dividends. But in all cases a leap of faith is required, even where national oil funds are being established. The number of economic and political stakeholders is still being reduced. It is becoming more difficult for those outside of the ruling circles to share in the economic and political spoils, and the criteria for inclusion in the inner circles is growing ever more restrictive.

Assumption # 8: Regimes can stage-manage the support or creation of political loyalty along ethno-national lines.

The process of post-colonial, in many parts of the former Soviet Union societal, redefinition has already begun, but the conditions of fighting have frozen this in the Caucasus. Even if the status of Abkhazia were resolved and the war in Nagorno

Karabakh settled, states like Georgia and even Azerbaijan would still face crises of national identity.

In these two states in particular, while the dominant nationalities in each country are consolidating, they are also breaking down. And there's a marked increase in sub-ethnic identity, be it clan, or local territorially-based identities. It's really unclear looking at the region as a whole what will be the dominant political influence over time, centripetal or centrifugal forces. Although the potential effects of interethnic competition should not be overestimated, their influence is likely to increase during periods of heightened elite competition, such as that of the succession struggle.

Assumption #9: If the region's various ethnic conflicts are successfully mediated then the people of the Caucasus will be able to come to terms with their colonial past.

The mediation of these conflicts would be wonderful and it is necessary for any of these three states, even the wealthiest, not only to survive, but to prosper. Though desirable, resolving these conflicts will in many ways merely serve to restore these three nations to the starting point, to allow them to deal with the pressing social problems that have been ailing them. It would eliminate any excuse they have for diverting themselves from the tasks of economic reform. Peace would mean refugee populations must be resettled, and the further dislocations this entails redressed. Nor will peace make the many other problems which have intensified over the past decade disappear. The collapsing infrastructure is slowly being addressed with foreign capital slowly coming into the region, but funds for rebuilding roads, redesigning telecommunications systems and energy grids must come locally from revenue-bearing enterprises.

These three governments face a major problem of deteriorating education systems and the growing gap between the capital and outlying regions on a whole host of quality of life issues. The education crisis that all face is most serious. There are limited employment prospects everywhere for quasi-trained youth, and it is unclear whether Russian universities will continue to host students from the "near abroad" – particularly if the next generation lacks good Russian language skills.

At the same time, though, the invocation of the colonial past is becoming a part of the litany used to explain problems or insufficiencies in the process of political and economic development. It is a ready excuse, which can be offered up for any problem, be it a preexisting one or something that has been exacerbated by the policies introduced

since independence. The bottom line is that the Russian and Soviet colonial past is offered up as an explanation for why the populations of these regions should not expect too much of their rulers. And this takes me to my last assumption,

Assumption #10: Ten years are but the blink of an eye in the life of a nation, and things are certain to improve with time.

Truly, ten years is not a long time. The negative trends that I talked about could prove to be temporary glitches in a different process of transition. But given the political and economic trajectories chosen by some of the region's leaders and by the seeming intractability of rusting infrastructure and the region's deeply-rooted ethnologic conflicts and ethno-political divides, it is easy to imagine that conditions will continue to deteriorate. Decolonization is a lengthy process, but in some countries of the world it seems like it goes on forever.

SOUTH CASPIAN OIL AND GAS; A PROBLEM OR A SOLUTION?

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I. Introduction

This paper addresses the subject of South Caspian Oil and Gas, and the impact they may have on the economic renewal of the Caucasus. In particular it will assesses whether or not Baku Oil could prove to be a positive factor in improving regional stability; or could it create more problems for Conflict Resolution in the Caucasus in the future.

II. History of Baku Oil

There are many lessons to be learned from the tumultuous history of Baku Oil. In fact it would seem that Baku Oil in the 20th century has had a disproportionate influence on World Affairs, that continues to today. "Blood, Oil and Politics" are the stuff of contemporary Caucasian history; and the current challenge is how to create a lasting Peace within this volatile region.

By 1900 Baku oil production led the world. Under the remarkable leadership of the Nobels and the Rothchilds it was a centre of technical innovation and global finance. But Baku was also a centre of conspicuous consumption, which very publicly displayed the worst aspects of unconstrained Capitalism. It was a time of social deprivation and exploitation of the Baku oil workers that inevitably created a fertile breeding ground for Bolshevism in the Caucasus. In 1903 a young ex- Georgian priest by the name of Joseph Stalin earned his spurs in the successful organisation of Baku and Tblisi Labour, in their fight against the oil owners. At the same time the imperial politics of Russia inflamed the ethnic conflicts of the Caucasus, between the richer Christian Armenians, and the poorer Muslim workers. The ethnic massacres in Baku of 1905, 1908 and 1918 are as alive today as they were 90 years or so ago.

Baku Oil then became a key strategic target for Germany and Turkey in their attempts to fuel their war effort in the First World War. The Western Allies recognised the threat and responded accordingly. With the collapse of war in 1918 Britain took control of Baku Oil. At the same time three fledgling independent democratic Republics emerged within the Caucasus: Armenia, Azerbaijan and Georgia. Initially Britain and America

gave strong support to these national initiatives. But the Caucasian leaders themselves were ill prepared for their newly found independence from Russia. Nevertheless they still used Baku Oil as a political lever with the West, in their attempts to secure their fragile independence. Political expectations were raised but seldom met. In 1919 Lord Curzon in London and President Wilson in Washington decided jointly that the security of the Caucasus was not worthy of the cost involved. The first independent Republics were hastily abandoned to their fate. Lenin, who needed Baku Oil to fuel his own fledgling Russian Revolution, seized the opportunity. The Bolsheviks occupied the Caucasus, and Baku Oil fell under Soviet control for the next 70 years.

The people of Baku were to suffer badly at the hands of Stalin. There was severe economic deprivation for the workers and bloody purges of the political and intellectual elites. The departure from Baku by the West in 1919 provides a clear political message for the present. This is best encapsulated in the old Caucasian saying: "Better a good neighbour than a distant relative". Regional geopolitical interests will inevitably override the national interests of more distant players. Therefore Caucasian leaders should look more carefully to their regional politics first, and not be seduced by more fickle distant partners. "Pax Russica" is and always will be a reality in the Caucasus, and this must be recognised.

During the Second World War the strategic message was repeated. Once again Baku Oil became the target for Germany to fuel its expanding war effort. The Allies responded to the threat by increasing their military support for Stalin, who equally depended on Baku Oil to fuel Russia's heroic efforts in the Eastern Front. However Churchill made separate provision for the Allies to bomb and destroy Baku's oilfields in the event they were to fall under German control. Stalin took similar defensive measures, and moved two thirds of the Baku oil establishment to Siberia and other more distant Russian oil centres. This left a seriously depleted and mainly female work force in Baku from which the Baku oil industry never fully recovered. By the mid-1970s Moscow reset their strategic priorities for Russian Oil. All new oil investment was diverted from the Caspian to West Siberia. Baku Oil went into gradual decline, and the long-suffering peoples of the Caucasus were faced once more with an extended period of recession and decay.

Then with the collapse of the Soviet Union in 1991, the three independent democratic Republics of the Caucasus returned for a second time. But this time they were to survive. Once more the peoples of the region were plunged into the depths of catastrophic economic chaos, and ethnic conflicts that had been dormant since 1919 again flared up. Baku Oil was once more to be used as the key political weapon in Caucasian foreign policies. So historically has Baku Oil been a blessing or a curse for

the peoples of the Caucasus? With so intimate a mix of "Blood and Oil", so far the answer must be negative! But for these small and newly independent nations, Caspian oil and gas is still their only hope for economic renewal, as well as providing them with important but not critical leverage in international affairs.

III. Caspian Oil Development

It is nine years since Western oil initiatives began in the Caspian. To date \$9 to \$9.5 bn have been invested in the upstream and midstream process, mainly off the balance sheets of the companies themselves. From the beginning, access to low technical risk and high volume oil reserves has driven this investment. As we have seen, the Caspian was politically and geographically isolated during the Soviet period. But it was certainly not a third world area eagerly awaiting western investment. Caspian-Caucasian urban societies were both sophisticated and well educated, with a particularly well-developed sense of national identity. But whether or not these long-suffering peoples can still perceive a more positive future arising from their energy wealth is quite another question. With so much misinformation surrounding Caspian energy development both within the media and at the political level, expectations have been raised to unrealistic levels. Therefore it is perhaps worth recalling that recent Caspian energy investment by the West can be subdivided into three distinct phases:

PHASE 1 (1992-1996)

This was a period of invariable pessimism and difficulty. It was a time of isolation and political-economic chaos. There was much hostility and misunderstanding over western intentions. The western investor faced an opaque Soviet based business culture, which displayed resentment and suspicion to outsider interference. It was also highly corrupt. At the same time the Western Press was constantly promoting the geographical isolation of the Caspian as an insurmountable problem, both for support logistics and regional oil export to international markets. All this was overlain by a strong sense of regional insecurity, arising from the many active and suspended bloody conflicts in the Caucasus. The Caspian investment climate was at best hostile, and business risk was high. But commercial access to existing giant fields drove the investment forward.

PHASE 2 (1997-1998)

This was a period of unbridled optimism. The Caspian became **the** "exploration hot spot". Major projects were working, and Caspian oil was getting to market. It was a

period of excessive media hype, which raised both investor and national expectations. It inevitably led to disappointment. The collapse in 1998 of global oil price rapidly extinguished the euphoria, and the new "Baku oil boom" withered on the vine.

PHASE 3 (1999-present day)

Business reality set in. More measured assessments became the order of the day. Hardnosed economic considerations once more placed Caspian oil investments into a realistic context. Investor priorities became much clearer. Major new oil and gas discoveries were made, and existing mega projects were developing, albeit at a slower pace. But the debate over a new regional oil pipeline to Turkey regrettably became politicised. Consequently offshore investments in the development of proven oil in the South Caspian remain suspended to this day.

Experience has however shown that Caspian Exploration Failure Costs are high (\$300-500mm per project). But with the discovery of giant fields Finding Costs are low (30-50c/bl). Similarly Caspian Development Costs are high, but there is realistic expectation that applied technology will drive these costs down. With the already successful development of pipeline systems and other transport options, a fall in Transportation Costs is also confidentially predicted. Today a fully built up cost for the Caspian barrel is roughly \$12-15/bl. This compares closely to the North Sea. But it is some two to three times more than the equivalent OPEC barrel in the Persian Gulf. Nevertheless future Caspian built up costs will inevitably fall to within an \$8-10/bl band, and should therefore remain globally competitive. Unless there is an unforeseen catastrophe long term energy investment in the Caspian will continue. But it must be noted that this will be at a significantly lower pace than conventional wisdom predicts.

Upstream investment in Caspian Oil is therefore not for the faint hearted. It can only suit those companies that have large and diversified global portfolios, who also have the ability to self-finance the bulk of their Caspian investment off strong company balance sheets. Essentially, offshore Caspian Energy Investment is for the larger multinationals; which is in fact what we now see. This is important for the Caspian NGOs who should realistically align their strategies accordingly.

IV. Caspian Oil Reserves

So has Caspian geology lived up to expectations? It is certainly better understood today by the Western investor than say five years ago. For the Soviet experts it has

conformed to plan. In 1995 CIA Energy Analysts helped fuel an artificial hype for Caspian oil resource potential, with Middle East style oil reserve predictions of 200 bnbls YTF (equivalent to the UAE and Kuwait reserves combined). Regrettably these numbers are still in use today by Caspian experts and a media that should know better. However this 200 bnbls number sat at the extreme end of a high-risk reserve prediction curve. A more modest median/most likely reserve projection by the CIA had exactly matched those that we use today (50 to 70 bnbls). The Caspian is more of a superior North Sea, and is certainly not a new Persian Gulf.

In the mid '90s, three mega projects dominated the Caspian energy scene – Tengiz and Karachagenak in Kazakhstan; and AIOC in Baku. These fields had already been discovered by the Soviets. The same three mega-projects dominate the Caspian today, but progress on their development has been slower than predicted. However two major new finds have also recently been made; mega oil at Kashegan in the North Caspian basin, and mega gas/condensate at Shah Deniz in Azerbaijan. But all other offshore exploration drilling for new oil, primarily in the South Caspian, has been disappointing. The North Caspian Basin is living up to expectations, and contains a considerable YTF oil reserve potential. For the South Caspian the message is different. For South Caspian oil development (not gas), strategic planning must focus on what is already found. Material new additions to current oil reserves are unlikely, even for the untested mega structures in the deeper water areas of the South Caspian.

By 2010 what could we see? A Caspian producing some 2 to 3 mmbd with a bias to the upper end; but only if a global oil price remains in excess of \$20 bl over the long term. Thus two thirds of future Caspian oil production will be from the North, and one third from the South.

V. Regional Oil Transportation

In the past five years we have seen considerable success in the development of regional oil transportation. Multiple export routes are working from the Caspian. Attractive netbacks, competitive transportation tariffs, and markets thirsty for environmentally friendly oils, will dictate a predominately westward movement of Caspian oil to the Mediterranean and the Black Sea. Consequently Caspian oil is now strategically important to the EU, especially as the production build up in the Caspian coincides with a corresponding decline in North Sea production. But the Caspian is not and never will be a global or strategic alternative to the OPEC producers of the Persian Gulf. Some significant Caspian oil volumes will however move south to Iran (up to 400kbd). But

Iran is a market and not an oil transit country. They would not wish to see Caspian oil erode their captive markets in East Asia.

Therefore the multiple export options we already see within the Caspian today will continue to operate in the future. However the two mega-oil pipeline projects of CPC and BTC will dominate Caspian oil evacuation. In the north the first is already being line filled, and should be operational next month. In the south the second pipeline from Baku to Ceyhan we are told is now just a matter of time. Consequently what is once more emerging into sharper focus as perhaps the most important Caspian transportation issue is the Bosphorous Strait between the Black Sea and the Mediterranean. This is still a serious bottleneck for future Caspian oil transit to international markets.

For Turkey this narrow strait is an international bottleneck of immense historical social and political importance. It presents a complex challenge involving legal status and multinational rights of passage (under the now inadequate rules of the outdated Montreux Convention), technical marine management, cost sharing and elements of regional political conflict. But the multi-billion dollar risk exposure from consequential loss exposure arising from a marine disaster at the heart of Istanbul is the pressing issue. Caspian oil investors are polarised on this. Between those who believe a bypass should be built as soon as practicable, and those who believe a Bosphorous oil transit can be safely managed with modern marine technology.

Last year some 70mt of oil transited the Strait (in both directions). By 2010 this could increase to 90 -110 mty, with a bias towards the lower end. These lower volumes are only marginally greater than oil transits seen during Soviet times. But this does not take into account the increased transit volumes of other hazardous cargoes, nor the five-fold increase in non-hazardous transits in the last ten years. The Bosphorous is a congested strait, and the undoubted oil transit risks are very real. A transit crunch point is emerging, probably within the next five years. Nevertheless regional oil transportation is no longer the key strategic challenge that would delay Caspian energy development. This now falls on support infrastructure, and the ability of investors to finance projects in countries with a high Business Risk.

VI. Pace of Caspian Oil Development

There is an eight-year track record for project management in the Caspian, and the news is both good and bad. Time prevents a comprehensive overview, but the messages are simple. Caspian infrastructure is seriously deficient, through long-term neglect and

decay. Also much of it is not where it is most needed. There are construction facilities, but all are in need of considerable investment and expansion. Critical path items such as offshore drilling rigs, heavy lifting equipment, marine fleets, and pipe lay barges are available, but most need a major cash injection to bring up the required western operating and insurable standards.

The unpredictability of associated cost upgrade in the Caspian is also a very serious deterrent. BP's salutary experience in Baku is one very good example; where rig and pipeline upgrades cost more than doubled the original amounts budgeted. Likewise skilled manpower and local management cadres are in very short supply. This problem will not be solved quickly and will be seriously exacerbated by Government initiatives that place unrealistic burdens in their PSA Contracts. Infrastructure Risk in the Caspian is therefore high, which - coupled with the continued absence of an international supply and support industry - exacerbates the issue. Caspian oil development will be much slower than conventional wisdom currently predicts, which has important political consequences.

But of equal concern to the Caspian investor is their ability to finance long term energy investments from conventional sources of global capital. It is important to note that of the \$9.5bn invested so far, only some \$300mm was obtained through conventional third party financing. The rest was sourced from company balance sheets. Can or will companies continue to do this in the future? For most of the energy companies involved in the Caspian, it would seem that some significant capital rationing must be inevitable. To access some \$20 to \$30bn over the next ten to fifteen years from the independent banking sector will need a consistent Caspian track record of continuity of oil exports and a business environment that in general meets with international norms of "good governance". But even then the independent banks will still expect the direct involvement of the MLAs and ICAs to provide significant political risk cover. The companies themselves will also need to self-finance up to 60% of the funding that is required. This is all a very serious challenge under any Caspian scenario, and financing risk will carry inevitable delays. Therefore although the Caspian fundamentals are all in place, the explosive oil boom we saw in 1998 is unlikely to be repeated.

VII. South Caspian Gas

Unlike for oil, the south Caspian area suffers from an excess of gas reserves and a dearth of regional commercial markets. Two thirds of the world's gas reserves (100tcm plus) are found within the countries that surround the Caspian Sea. But with an absence of proximal commercial markets there are few underlying incentives for regional gas

development. In the South Caspian the recent offshore giant gas discovery by BP at Shah Deniz (6.6 to 20bcm) has captured the last remaining market gap in Turkey.

A Trans-Caspian gas line taking Turkmen gas to Turkey (16 bcm) is no longer viable as the Turkish market for this gas is closed. Turkmen (and Uzbekh) gas is now dependent on the Russian market, which is commercially insecure for the longer term. It also involves a high risk transit through Kazakhstan, which itself will soon become a major gas exporter to Russia. It will be many years before Central Asian gas will move eastwards to the gas markets of China and the Sub-Continent; so the prolific gas resources of Central Asia are now truly "stranded assets". The political implications for the region arising from this issue will again contribute further to long term insecurity and potential regional conflict.

But with the development of new gas pipelines across the Caucasus, and with coeval development of Iranian gas lines to Turkey, then both South Caspian and Iranian gas reserves will become strategically important to the EU. Turkey will be the regional gas transit hub. These Caspian and Iranian gas supplies provide the EU with a competitive alternative to Russia and North Africa. Also transit countries for South Caspian gas like Georgia will not only benefit from transit revenues, but from access to an independent gas supply not under the heavy hand of Russia. New gas development in the South Caspian is now assured and will become operational in the next four years. This also holds the potential to service Caucasian domestic consumers to alleviate much of the winter suffering that has been seen in the past.

VIII. Conclusion

For the past ten years Caspian energy investment has trod a very uneven path. But major progress has been made, mostly in a positive direction. It has been a time of economic and political stress, and the long suffering peoples of the region have accepted levels of deprivation and poverty that are hard to imagine from the comfort of the West. The Caspian track record shows that mega projects can be implemented, and with mega pipelines beginning to function, the future of Caspian energy investment is clearly more secure.

So what could realistically destabilise the situation? Political Succession Risk has perhaps been overstated, as every energy investment will also always underpin successor governments. Perhaps renewed outbreak of hostilities in the Caucasus? With the increased global profile for the Caucasus this seems unlikely – but then the Balkans could well be an unacceptable role model for this region too! Could Caspian energy

development facilitate Peace in the Caucasus? Pipelines do not bring Peace, but Peace can secure pipelines. But until all three countries of the Caucasus can benefit from Caspian energy development, regional balance will remain elusive. There are practical options to progress such initiatives, but these are secondary to the political debate. It is important to note that significant government revenues from production sharing contracts in the south Caspian are still some time away. It will be at least 7 to 10 years before Azerbaijan will seriously benefit from its new oil and gas revenues. Therefore any short term peace initiatives involving funding will still need to depend on external sourcing.

So what is the real threat to Caspian energy development? The "Usual Suspect" must be Global Oil Price. If Oil Price were to collapse for some significant period, this would not only undermine the competitiveness of Caspian oil projects, it would again collapse the fragile economic growth that has started in the region. More importantly it would destroy all realistic hopes of Russia's own recovery, with all the regional consequences that this would imply.

So are there better global alternatives to the Caspian available for the foreign upstream investor? Undoubtedly yes. But when there are giant fields to be found, the Caspian region cannot be ignored. The Caspian will always be an important element in any multinational oil portfolio. Unlike 1919 this time the Caspian will not be so easily abandoned to its fate. The second independent republics of Armenia, Azerbaijan and Georgia are geo-politically secure, and the strategic energy needs of the EU should be used to guarantee their status.

Therefore to return to the title of this paper; "Is South Caspian Oil and Gas a solution or a problem?" So far they have been something of a mixed blessing. Historically for the ordinary citizen of Baku they have for much of the time been a curse. Unresolved offshore territorial disputes within the Caspian are energy driven and provoke conflict between all the riparian states. Within the Caucasus, the isolation of Armenia from Caspian energy development provokes fears that energy revenues will fuel a new arms race to their disadvantage. Lastly with endemic corruption spread across the region the ordinary people do not yet see a Norwegian but a Nigerian future for themselves. These are key strategic issues for the EU, and are central to the conflict resolution process as well.

THE ROLE OF THE UN IN THE SETTLEMENT OF THE CONFLICT IN ABKHAZIA, GEORGIA

DIETER BODEN

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This paper aims to point out some key aspects of the conflict situation in Abkhazia, Georgia, in particular the involvement of the United Nations in the search for a comprehensive settlement. An introductory chapter presents some of the main facts related to UN activities and to the conflict in Abkhazia, because it is, without doubt, the least known of all conflicts in the Caucasus, overshadowed in recent years by Chechnya, but also by Nagorno-Karabakh. It is, at the same time, unfortunately, also one of the most complicated. A critical assessment of the UN efforts to date follows in the next chapter. Finally, the paper concludes with a highlight of key achievements of the UN in the settlement process and an appeal to all parties involved to make effective use of the peace instruments available.

I. Introduction

In the Soviet days Abkhazia had the status of an Autonomous Republic within the Georgian Union Republic. Both ethnic groups, the Abkhaz and the Georgians, have lived in peaceful coexistence since time immemorial; however their relationship was never free from frictions and antagonisms. These intensified in the period immediately following the breakdown of the Soviet Union. The result was a devastating war in 1992-1993, which took the lives of some 11,000 people. Another deplorable consequence was a big wave of refugees and IDPs, of which the 20th century has had more than its share: around 300,000 people, out of a prewar population of 530,000, were displaced. The overwhelming majority of them were ethnic Georgians. The victor of the war, Abkhazia, declared its independence, which is, however, not recognized by the international community.

This was the situation when the UN was called in almost 8 years ago to mediate between the parties. Following efforts of the UN and the Russian Federation a cease-fire agreement was signed by both sides in May 1994, the so-called 'Moscow Agreement on a Ceasefire and Separation of Forces'. It remains in force up until today, despite violations, and it is one important basis for the activities of the United Nations Observer Mission in Georgia (UNOMIG). The UN plays a dual role in the post-conflict situation. On the one hand, UNOMIG is tasked to monitor the cease-fire on the ground and

observe the operations of the CIS Peacekeeping Force, currently a contingent of 1700 personnel from the Russian Federation. Today, our mission has a contingent of 106 unarmed observers from 23 countries at its disposal, who operate daily ground patrols in mine-protected vehicles and heli-patrols in two helicopters. UNOMIG operates independently from the CIS Peacekeeping Force, but keeps close contact with them. To date, the Abkhaz conflict is the only example of direct collaboration on the ground between the UN and the CIS.

On the other hand, the UN is mandated to bring about a comprehensive political settlement of the conflict. Its mandate, which is one of the broadest assigned to any UN peacekeeping mission, is renewed every 6 months on the basis of Security Council resolutions. Also participating in the UN-led peace process is the Russian Federation who acts as a facilitator, the Group of the Friends of the Secretary-General (its coordinator, France, Germany, the Russian Federation, the United Kingdom, the United States) and the OSCE.

II. Assessment

Repeatedly, serious criticism has been directed at the UN, among others, about the fact that almost 8 years after the end of the war, the conflict remains unresolved politically, ‘frozen’ as it were. In this context one should recall the two basic principles that the UN—and thus the international community—has set forth and on the basis of which, what is termed “comprehensive political solution”, should be negotiated:

- 1) the respect for the territorial integrity of Georgia;
- 2) the imprescriptible right of refugees and IDPs to a safe, secure and dignified return to their places of previous permanent residence (this second principle constitutes a challenge in itself; provided that all refugees and IDPs decide to return, the ethnic Abkhaz would, again, constitute a minority in Abkhazia).

In light of these two major objectives, the UN must confess that it is far from having found the ultimate solution. Progress has been rather slow as yet. Part of the explanation could be sought in the following:

A comprehensive negotiating process between the two sides, the so-called UN-led “Geneva peace process”, has started only fairly recently, at the end of 1997. It suffered one major interruption in May 1998 when the Abkhaz side conducted a military sweep operation in the Gali area and drove out tens of thousands of IDPs for a second time. In such a limited time period of normal activity for about 3 years, the results achieved have

not been—and one must add: in light of the challenges that stand before us they could not have been—sufficient to offer a solid basis for a comprehensive political solution. One should also keep in mind that 8 years after the war attitudes of hostility and “images of the enemy” continue to prevail on both sides. Major progress in the areas of confidence building and reconciliation are therefore a prerequisite for our political work.

One should also not forget that UNOMIG’s area of operation is the Caucasus, which is currently one of the major areas of instability in the world. The Caucasus region, that is both the so-called North Caucasus and South Caucasus, is still very much in flux after the collapse of the Soviet Union. No regional security arrangement among the three newly independent states has been put in place in the South Caucasus and a number of strategic concepts, among them President Shevardnadze’s plan for a ‘мирный кавказ’ or ‘peaceful Caucasus’, have remained idle. Besides Abkhazia, there are three unresolved frozen conflicts in the Caucasus, i.e. in South Ossetia, Nagorno-Karabakh, and Chechnya—a hot conflict in the North. Obviously, these conflicts are interrelated in a very sophisticated manner. The conflicting interests of the key players in the region—the Russian Federation, Turkey, and Iran—are just one factor in this context. The relations of the South Caucasus countries with their most important neighbor, the Russian Federation, after independence are not yet well defined—with Georgia, for the time being, having the most problematic bilateral relations. The bilateral relations between one of the sides to the Abkhaz conflict, Georgia, and the facilitator in the peace process, Russia, being as complicated as they are, they must have an impact on the conflict settlement in Abkhazia. All those who are involved in peace initiatives in the Caucasus are well advised to take this regional aspect fully into account. It is difficult to imagine therefore that a solution would be found for one of the Caucasus conflicts in isolation from the others, particularly in Georgia, where cooperation among international mediators dealing with separate conflicts should be stimulated and enhanced to share insights and achieve an accumulative impact.

Finally, some hold that the political mandate of the UN is biased in that it favors the position of one side over the other. It is well-known that the UN Security Council, from its first statements on the conflict until today, has consistently stressed that the ultimate political settlement of the conflict must include an Abkhazia “within the State of Georgia”, thus clearly advocating the need to preserve Georgia’s territorial integrity. The leadership of the Abkhaz side, however, continues to insist on its ‘independence’, for which, they claim, sufficient legal basis can be found. The UN mandate, however, is fully justified and consistent with international principles. The UN cannot condone the expulsion of refugees and IDPs by force, as it happened in Abkhazia; nor should it be

facilitating a process where it tolerates the break-up of a state by warfare. The consequences elsewhere would be devastating.

III. Achievements

Despite criticism, it is appropriate to also highlight some of the achievements of the UN conflict settlement efforts in Abkhazia:

It is certainly to the credit of the UN peace work in Georgia that since 1993 a resumption of hostilities could have been prevented, the clashes of May 1998 notwithstanding. One should add that this achievement did not come about without sacrifices. UNOMIG had one of its observers killed in action and several wounded, and the CIS Peacekeeping Force has suffered casualties of up to 80 soldiers to date. In the political field, through calm and persistent UN-led negotiations, a number of security arrangements have been agreed with both sides. These arrangements have substantially contributed to a consolidation of the cease-fire and reaffirmed people's confidence in a lasting peace. Today, an estimated 60,000 people have again taken up permanent residence in the Gali District, compared to only 11,000 who had remained after the May 1998 events. But the UN is well aware of the fact that the security situation at the cease-fire line remains volatile—in 2000, 60 people were killed in the area of responsibility, in the first half of 2001 close to 40 people have already lost their lives. This cannot be termed normalcy.

The UN has succeeded in creating the necessary negotiating mechanisms for frequent interaction and exchanges between the two sides:

- the Coordinating Council body, which, under the chairmanship of the SRSG, convenes alternately in Tbilisi and Sukhumi at prime-ministerial level. Under its aegis 3 working groups operate to address security matters, IDPs and refugees, and socio-economic issues respectively.
- Confidence-building measures aimed at re-establishing and strengthening contacts at all levels of society to tear down the imagined walls between the peoples. Three meetings of such kind have so far been held, in Athens in October 1998, in Istanbul in June 1999 and in Yalta in March 2001. An increasing number of NGO representatives and journalists are travelling between Tbilisi and Sukhumi, mostly on UN aircraft, to participate in seminars, conferences and meetings. Contacts between the sides are being re-established, contrary to what has been the case between, for example, Nagorno-Karabakh and Azerbaijan.

The Human Rights Office in Sukhumi has been functioning since 1996 as an integral part of UNOMIG and in cooperation with the OSCE with the overall aim to support the peace process. It is tasked to assist the population of Abkhazia whose de facto international legal protection cannot be guaranteed following the loss of control over the Abkhaz territory by Georgia. It is engaged in promotion, prevention and education. Day-to-day work of the Office also includes visiting prison inmates to assess their conditions and monitoring criminal trials. Following the visit of a joint assessment mission to the Gali District the recommendation was made to set up a branch human rights office in Gali; the two sides are currently being consulted on the feasibility of such a project. If set up, such an office would significantly add to the capacity of the UN to monitor the human rights of returnees in Gali, a key area for the conflict settlement with a population consisting of almost 100% ethnic Georgians.

Lastly, and most importantly, serious work on the status issue has begun, which would envisage the future of Abkhazia within the state of Georgia. The Group of the Friends of the Secretary-General for Georgia, who has been supporting the SRSG in elaborating a draft framework document on the distribution of competences between Tbilisi and Sukhumi, recently intensified its efforts to coordinate the positions of its respective members. As soon as full agreement is reached among the Friends, the document will be presented to the sides. It is meant to serve as a basis to start meaningful negotiations between the two sides. Without adding status discussions to the package of negotiations, the entire peace process remains in jeopardy. It is expected that the Abkhaz side, which up until today refuses to participate in any such initiative, will in the end concur.

IV. Conclusion

From the above it has become clear that the UN has provided the parties to the conflict with the necessary framework and tools, with which to solve the problem. But, self-evidently, it is up to the sides to make effective use of these instruments so that they yield tangible results. Their leaders are called upon to summon sustained political will and readiness to make compromises, which will undoubtedly be required to achieve a full-scale solution for the conflict in Abkhazia. The international community, and the UN in particular, will lend its full support to any such initiative that contributes substantially to bringing back peace and stability to the entire Caucasus region.

HOW EFFECTIVE HAS THE OSCE BEEN IN THE CAUCASUS?

H.E. Mr. GIORGIO BURDULI
First Deputy Minister of Foreign Affairs of Georgia

I. Introduction

Nine years ago, in 1992, three Caucasus states joined the Organization for Security and Cooperation in Europe and committed themselves to protect peace, security and justice and to the development of friendly relations and co-operation with other Participating States. For these newly independent states it was a significant step towards integration into Euro-Atlantic institutions, the guarantee of their security, a needed support in building of a democratic state and access to the largest regional forum.

The OSCE responded to the challenges to peace and stability in the Caucasus with involvement in comprehensive settlement and post-conflict rehabilitation of armed conflicts in Nagorno-Karabakh, Abkhazia, the Tskhinvali Region/South Ossetia and Chechnia. There is the Border Monitoring Operation on the state border of Georgia and the Chechen Republic of the Russian Federation. The OSCE/ODIHR provides assistance in the process of transition, protection of human rights and building democratic institutions. Also, in the framework of the adapted CFE treaty the withdrawal of the Russian military bases from Georgia is underway.

The Caucasus is the crossroad of Europe and Asia, where different nationalities and religions are mixed. This diversity provides a fruitful ground for disputes and conflicts. It is unfortunate that unlike the confrontation in the Balkans, conflicts of this region, mass killings, exodus of peaceful populations and helpless refugees and IDPs have been given no exposure on world television screens; therefore, there is much less awareness of them.

Regrettably, there is not an equal reaction from the International Community towards the ongoing events in the OSCE region. I cannot help but feel that, on one hand there are "privileged" conflicts and, on the other, ones where no tangible progress has been achieved. The latter calls for the wider involvement of the international community and specifically the OSCE. These conflicts can easily escalate into large-scale confrontations, involving adjacent areas and neighboring countries and today this is the case in the North Caucasus. The cases of Kosovo and Macedonia also clearly indicate

the necessity of taking urgent measures in volatile regions to prevent confrontation by peaceful means.

II. Conflicts

1) Tskhinvali Region/South Ossetia

The OSCE mission to Georgia was established in December 1992 with the mandate to facilitate a political settlement to the Georgian-Ossetian conflict on the basis of OSCE principles and commitments, to eliminate sources of tension and extend political reconciliation. Also, in cooperation with the international community it participates in the work of defining the political status of South Ossetia within the Georgian State. The Mission is actively involved in the work of Joint Control Commission, gathers information on the military situation and monitors peacekeeping forces.

With regards to the political settlement, I would like to particularly emphasize the 6th meeting of experts, held last year in Vienna-Baden with support of the Austrian Chairmanship of the OSCE. At this meeting, for the first time, status-related questions had been discussed in a constructive atmosphere. We believe that the establishment of a regular schedule of negotiation meetings will contribute to the development of positive dialogue. The next meeting of experts is to take place this month 2001 in Bucharest. We are grateful to Mr. Mirca Dan Geoana, the Chairman-in-Office of the OSCE, for the offer to set the next meeting of experts in Romania. However more should be done to achieve real breakthrough in the process of comprehensive resolution. We are concerned by the fact that despite the efforts of the OSCE to move the peace process ahead, real progress has not been achieved and conflict is still viewed as "frozen". We are confident that the time has come to breath a new life into the peace process, to devise a concrete plan of action and to further increase the role of OSCE. We need to intensify our efforts in this direction to reach tangible results. Georgia supports the wider participation of the Troika, as the executive body of the OSCE, in this negotiation process. The enlargement of the format of negotiations is not the end in itself. We would like to give a new impetus to the process of political settlement of the conflict.

Special mention should be made of the work carried out by the OSCE Mission to Georgia, which is acknowledged as very productive. The presence of the Mission (since spring 1997) spawned a process of spontaneous return of the Georgian population to the villages, which is going on more or less smoothly. Regrettably this cannot be stated

with regard to Tskhinvali and other towns of the region and there is a need to schedule consultations on this matter as well.

Another problem is the restitution of property and protection of housing of refugees and IDP's. The OSCE/ODIHR along with other international organizations reviewed the draft law on property restitution. On the basis of their recommendations the work on a draft-law on legal framework for refugees' and displaced persons' housing and property restitution, is continuing.

I am glad to report on growing cooperation between the Georgian and Ossetian law enforcement bodies, which creates a good precedent of further rapprochement. On the other hand, the problem of disarmament of the local population in the region is still acute. In this respect, we attach great importance to the work of Special Co-ordination Center, consisting of representatives of Georgian and South Ossetian law-enforcement bodies working in close cooperation with the Joint Peacekeeping Forces. On 18 June 2001 the center was formally opened by the Ambassador Jean-Michel Lacombe, with the grant of the OSCE, donated by the Norwegian Government.

Here I would also like to state that we are well aware that without economic rehabilitation of the conflict zone, it would be difficult to achieve real progress in political issues. We attach paramount importance to the assistance rendered by the international community for the implementation of economic projects. We thank all donor organizations and countries for their contribution, but more help is needed. We also welcome the decision to involve the European Commission directly into the work of the economic working group of the Joint Control Commission.

2) Abkhazia

With regards to the current situation in Abkhazia, I have to state a full stagnation in the peace process. This conflict is much more acute and tense. Since the end of hostilities, with invaluable help from the international community, we try to move the peace process ahead. However, the progress has been practically non-existent. Unfortunately, the illegitimate Abkhaz regime continues unhindered with its chosen course of ethnic cleansing and stubbornly refuses to move the negotiation process ahead.

We are most grateful for the courage of the OSCE to give appropriate assessment to the events in Abkhazia, Georgia and call the crimes committed against predominantly Georgian population there an ethnic cleansing.

I strongly believe that the key to more effective peace policies in our region, and particularly, in regards to Abkhazia, Georgia, lies in closer collaboration and synchronized action between the UN and the OSCE. The Joint Assessment Mission to the Gali District (JAM), carried out under the aegis of the UN and within the framework of the UN-led Geneva process in November 2000, was a telling example of positive cooperation between the UN and the OSCE, although closer co-operation would be desired. We hope that the recommendation to open in Gali a branch office of the United Nations Human Rights Office in Abkhazia will be implemented soon as violations of human rights are taking place predominately in this region, inhabited mostly by the Georgian population.

The work of the Human Rights Office in Sokhumi, where the OSCE together with the UN undertakes its activity, requires improvement. We consider that its actions should cover first of all the Gali region, where infringement of human rights, persecution of population with regard to ethnic origin is the most frequent. That is why we are seriously concerned with the fate of those people who spontaneously return to the Gali district, as we do not see guaranties for their security and safety. We cannot wait till the safety conditions will be created by themselves.

Another telling example of the OSCE's involvement in the peace process is the establishment of an ad hoc committee on Abkhazia, Georgia at the Parliamentary Assembly of the OSCE. The aims of the committee are to monitor the conflict settlement process at the inter-parliamentary level, maintain a visible OSCE presence throughout the conflict zone, submit recommendations to the PA and elaborate concrete mechanisms of resolving the conflict, with full respect to the sovereignty and territorial integrity of Georgia.

As I mentioned above, this is a very tense and acute conflict. The negotiations concerning political settlement, defining the status of Abkhazia within the Georgian state, distribution of constitutional competencies between Tbilisi and Sokhumi is in full stagnation; the process of the repatriation of the refugees and IDPs is stalled. The main stumbling block remains the complete absence of security for all - refugees, local population, international personnel. Co-operation between the UN and the OSCE in the conflict resolution process is still lagging. We still face the problem of non-implementation of various decisions and resolutions the UN and OSCE. The uncontrolled and unaccounted heavy military armaments are still in the hands of separatists.

I believe that the OSCE is able to play a decisive role in Abkhazia. Of course, the UN still remains a leading force in the resolution of the conflict, but active involvement of the OSCE in the peaceful settlement will considerably stimulate solution of many existing and still unresolved problems.

I would like to draw your attention to the issue of the OSCE monitoring on the border between Georgia and the Chechen Republic of the Russian Federation, which was established in January 2000 under the Decision of the Permanent Council (PC.DEC/334) of 15 December 1999. This is a telling example of timely and effective response by the OSCE to the newly emerging threats. The monitoring has clearly demonstrated its positive features and substantially contributed to the lessening of tensions.

We are convinced that the monitoring, under the existing mandate should continue further. At the same time, Georgia would welcome elaboration and implementation of other, relatively cheap, operations in order to cover wider segment of the border. Our main task is to minimize the threats of transport of tensions from the North Caucasus to the South; a threat that we yet can not consider eliminated.

III. Human Rights and Democratization

The mandate of the OSCE Mission to Georgia provides for promotion of human rights and fundamental freedoms, the assistance in development of legal and democratic institutions and processes, as well as monitoring elections. The Mission renders support in elaboration of a new legislation and the establishment of an independent judiciary. The OSCE opened offices in Baku and Yerevan with similar mandates.

It is especially difficult to talk about human rights in the Caucasus - in the region where hundreds of thousands of refugees and IDPs have been desperately awaiting the return to their homes. In terms of human rights, the only response proportionate to their situation would be to assist them in restoring their inalienable rights - allowing them to return to their homes. My country is strongly committed to the peaceful settlement of the conflicts. At the same time we also consider it substantial in full accordance with international law to condemn those who have violated the rights of the population of Georgia and thus give an appropriate assessment to the acts of the perpetrators of ethnic cleansing.

In 1998 the Office for Democratic Institutions and Human Rights signed Memorandum of Understanding with all three Caucasus States after the visit of a Needs Assessment

Mission to the region. Under the framework of these Memoranda several very useful projects - technical assistance to the Public defender, TV/radio programmes to raise public awareness on Human Rights, training for law enforcement officers and election administrators, gender and civil diplomacy - have been implemented. The OSCE/ODIHR monitored Parliamentary and Presidential election, reviewed the existing election laws and participated in the work of creation of new legislation. I would like to note that outcome of the civic diplomacy projects have been very positive. Several meetings of Georgian, Abkhaz and Ossetian journalists took place during 1997-2000. This led to the enlargement of format and establishment of Association of Journalists - "South Caucasus", which is registered in Strasbourg. This non-governmental organization is the first such group working to promote free and independent media in the Southern Caucasus. Its members are journalists and publishers that share the common interest in promoting and strengthening peace, co-operation and stability in the region.

This association can be described as a breakthrough in journalist co-operation in the region - transcending not only ethnic, but also national frontiers. This example paved the way to implementation of other similar projects. At present the work on the creation of a gender association of the South Caucasus is going on.

IV. Conclusion

The experience of modern history shows that revolutionary developments are accompanied by extreme collisions, consequently determining the fate of individuals and even that of the whole nations; but not all are conscious of this truth and as a result we again witness bloodshed and destruction. However, today the time has come to build-up the New World order. The OSCE has a special role to play in this process. Without exaggeration it could be said that it has successfully met many challenges. Nonetheless, you may agree that the potential of this Organization has not been utilized to the full extent.

It is quite obvious that the countries of the Caucasus seek to find, within OSCE, guarantees for their territorial integrity and state security in a broad sense. We are confident that the Comprehensive European Security should be based first of all on the security of different regions. Today it may sound unrealistic, but the Caucasus could play a role of a pillar for the European Security. The rich potential of the region gives hopes to turn confrontation into the mutually beneficial co-operation and to support peace and stability not only in the region, but in the OSCE area.

However, the efforts and good will of only our countries might not be enough. The OSCE should play a decisive role in this process. Unfortunately, on numerous occasions it has been used with a substantial delay, so that sometimes the notion "preventive" loses its meaning. The OSCE, as the respected international organization with a vast experience should exert every effort and apply all possibilities at hand to solve conflicts and ensure peace and security all over the OSCE area. This is the first and most required step towards implementation of the OSCE's commitments.

And in conclusion, I would like to raise one more issue. While discussing conflict settlement in South Caucasus, some conflicts are frequently reflected as priority for the OSCE. Such concept could be a losing one. The regional security requires comprehensive approach on every stage of consideration. Georgia, after settlement of conflicts on its territory could play the role of neutral mediator in conflicts of the region. Thus I would dare to say that we might find the key to a Peaceful Caucasus in my country.

THE ROLE OF RUSSIA IN THE SOUTH CAUCASUS

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Addressing a two-day parliament session in Baku on 23-24 February 2001, the Azerbaijani President Heidar Aliev told the parliament, he had discussed the Karabakh conflict 98 times with the OSCE Minsk group co-chairs, 78 times with various Turkish leaders, 28 times with the Russian president, 18 times with the US president or secretary of state, and 16 times with the French president.¹ Although this data refers only to one single issue of the complex situation in the South Caucasus, it pretty well reveals who are the relevant players in the region. Inter alia, it reveals that after a decade of a demise and disengagement from the region, Russia still remains an important part of the developments here.

I. Russia's long-term interest

After several years of lack of clear guidance for the Russian policy towards the South Caucasus, after pursuing often chaotic and even diverging policies by different government agencies and groups of interest, after repeated attempts to instrumentalize problems the new independent states were facing and to manipulate local, the understanding of the Russian national interest in the South Caucasus has obviously evolved. Over time, the Moscow political elite was gradually learning that Russia does not need satellites along its borders. Instead, its interest rather implies that the country is surrounded by politically stable, economically wealthy, and Russia-friendly neighbor states.

This definition of the Russian interest in the region is not only reasonable and pragmatic but also can easily accommodate the interest both of the countries of the region, and of the outside actors. Provided, certainly, the ends of a policy based on these principles can and will be met.

Despite complicated curves and continued ups and downs, the Russian policy towards the countries of the South Caucasus was gradually but slowly moving towards that sort of understanding of the national interest. From the late 90s Moscow was giving up unrealistic self-assertive rhetoric and was applying an increasingly pragmatic approach. Despite the fact that the Russian discourses of South Caucasian politics still are

controversial, the official Moscow continued to follow a pragmatic line after the change of the transfer of political power from Boris Yeltsyn to Vladimir Putin in 2000.

The main challenge for the time to come is not whether Moscow will be able to sustain its movement towards an even more pragmatic policy but whether it will have enough resources, together with the countries of the region and other regional players, to achieve the pragmatic ends of the well understood Russian interest.

II. Limits of Russian policy

The basic trends in the Russian politics which can be traced over the last years and projected into the foreseeable future imply that Moscow itself can hardly contribute much to improve political stability and boost economic development in the South Caucasus. Indeed, although Russia is going to stay a relevant regional power, its actual role in the developments in the region is most likely to remain limited for a number of reasons.

Reduced interest in the region

From the start of the first military campaign in Chechnya in the mid 90s, Moscow's policy towards the Caucasus is increasingly reduced to short term objectives of the war in Chechnya. This is even more so after the second campaign was started in 1999. The Russian policy was not anymore focused on playing a pro-active policy in the Caucasus, whatever kind of policy it could be, but rather on curbing any activities from or through the South Caucasian states which could complicate its mission in Chechnya. From 1999/2000 on, this intention was clearly determining the agenda of Russian policy towards both Georgia and Azerbaijan.

Taking into account that peace in Chechnya can hardly be restored in a mid-term perspective, and that Russia faces other spots of instability in Northern Caucasus along the borders with Georgia and Azerbaijan (to mention Dagestan just as only one example), the reduction of the Russian policy to maintaining its rule over the Northern part of the region is most likely to remain the preoccupation of Moscow for the time to come. This certainly makes Russian interest in South Caucasian developments a secondary issue for Moscow.

Limited resources

Even if Moscow wished to embrace a more active role in the Caucasus, it obviously lacks resources to do so, and the available resources are most likely to further diminish instead of expand.

With the break up of the Soviet Union, Russia inherited the position of the single most important partner for the Soviet successor states including those in the South Caucasus. However, over the last decade, the vertical dependence of the new independent states on Moscow was continuously eroding in every sense, and this process was faster in the South Caucasus than in many other regions of the former Soviet Union.

Although Russia remains an important part of the regional politics, by now it has irreversibly lost its position as the dominant trade or financial partner of the South Caucasian states. The diversification of political relations of the latter has deprived Russia from the role of the key political partner for them (except, probably, for Armenia). The long term military engagement in Chechnya exhausts Russia's ability for any relevant military power projection into the Southern Caucasus. Indeed, Russia continues to pull out militarily from Georgia after having pulled out from Azerbaijan in the early 90s, and having minimized its presence in Armenia in the late 90s.

The recent trends can be definitely projected into the years to come. This implies that Russia will be further unable to significantly contribute to either economic development of the South Caucasian States, or to their financial relief, or to strengthen local regimes. Probably, the most significant sign of this new reality is the policy of the Armenian leadership which does not anymore rely on the explicit military alliance with Russia and seeks to improve relations with other regional powers, most notably with Turkey.

The decreasing ability of Moscow to affect the situation in the South Caucasus has also had effect on its political role in the region. Although Russia remains an important player there, its ability to influence politics should not be overestimated.

Political limits

Although Moscow was adapting to the new realities, it still remains largely entrenched in the stereotypes of the last Soviet and the early Russian years. The adoption of the conception of the "Caucasus Four" (Armenia, Azerbaijan, Georgia and Russia) in 2000, already under Putin's presidency, has clearly revealed that Moscow is not yet prepared to admit, and to accept an increasing role of other regional powers or of international institutions in the region. This implies that for the time to come Moscow will prefer to

remain a single, although a less relevant player, instead of becoming a cooperative team player in the region.

This does not imply that Moscow's policy may again become as controversial as it has been in the mid 90s, but it certainly limits the likelihood of a concerted action of the relevant regional players aimed at helping the new independent states of the South Caucasus to strengthen their statehood, increase political stability, and identify proper policy of economic development. The eventual contribution of Russia to achieving those ends may therefore be reduced to its efforts to pacify the Russian North Caucasus, and to refrain from any conspiracy against any regime in the South Caucasus.

III. Implications for the region

In the time to come, Russia is highly unlikely to play any significant role in helping the new independent states of the South Caucasus to improve their political stability, or their economic performance. It is even less likely that Russia might wish to play such a role. Its political agenda for the region is dominated by developments in the North Caucasus, and is most likely to remain very much so in the time to come. At the same time, Russia is unlikely to become supportive of any relevant international engagement to help the independence of the South Caucasian states, and will continue to seek to preserve the symbols of its "special role" in the region through a unilateralist policy.

This projection suggests that Russia is likely to be neither able nor willing to make anything to avoid the worst case scenario – that of the new independent states gradually embarking on the road of becoming "failed states". Such a scenario, however, bears the danger of further destabilization of the situation both in the Southern and the Northern Caucasus.

At the same time, the increasingly pessimistic forecasts for the effect of the extraction of the Caspian hydrocarbons on the economic development and wealth of the South Caucasian states may well dump the hopes for a better future in the region. Continued disproportions in the distribution of the existing wealth inside the countries may thus further increase conflict potential in the region. The inevitable change of the political leadership in Georgia and Azerbaijan already in the near future may result in renewed domestic power strife undermining political stability. All those factors suggest that the worst case scenario significantly affecting Russian interests in the region becomes even more plausible.

So far, the question of who is prepared and going to pay for the consolidation of the independence of the new states of the Southern Caucasus, and who can afford paying for it, remains open. A common interest in avoiding further disruption and eventual collapse of the weak states in the region suggests that a concerted action of the international community is required in cooperation with the regional governments of the states in order to develop, and to implement a realistic development policy.

NOTES AND REFERENCES

¹ <http://www.rferl.org/Caucasus-report/2001/03/09-020301.html>

WHAT PUTIN'S RUSSIA AIMS FOR IN THE CAUCASUS?

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I. Introduction

The question this paper asks can be answered in many different ways, and that means that it has no definite answer as yet. My attempt at answering goes much along the way chartered by Andrei Zagorski in his presentation. I find it difficult to disagree with his definition of Russia's interests in the region, and while some of those may be of questionable legitimacy (to the degree this criteria is applicable to national interests), there are few doubts about the scale and intensity of these interests.

The presence of long-term interests and the fact of being a Caucasian power by the virtue of history and geography do not necessarily translate into a consistent and coherent policy. For that matter, during the whole Yeltsin era, Moscow was demonstrating a remarkable ability to undermine its own positions through uncoordinated spasms of activity and erratic behaviour.^{xii} With the arrival of Vladimir Putin to the Kremlin, Russia's policy has generally become much more determined and self-assured, much better coordinated and targeted. We do not see any longer several major bureaucracies involved in protracted infighting and a few minions elbowing around the inattentive 'tsar'.

Putin has indeed introduced discipline, teamwork and focus, but this presentation starts with the assertion that Russia still does not have anything resembling a mid-term strategy for the Caucasus. We see plenty of ad hoc activities, half-measures mostly of a reactive character, demonstrative and symbolic steps – all of those under the huge shadow of a small war. Taking this as a point of departure, I find it difficult to argue with Vafa Guluzade, whose presentation, in my opinion, makes a perfect illustration of Martha Brill Olcott's 'Assumption # 3: That all the problems in the region are created by the regional hegemon – Russia'.

My presentation will focus on just three loosely connected points but that, I hope, will suffice to support the conclusion,^{xiii} which might appear to stretch the analytical framework set by Andrei Zagorski and will certainly go far from the official MID line to be delivered here by Bakhtier Hakimov.

II. Chechnya: What Is the Price of the Victory?

The war in Chechnya is essentially outside the scope of our discussions but its impact on Russia's policy in the wider Caucasus region is so deep and lasting that we have to take a closer look at this problem. What is clear is that Chechnya sharply limits Moscow's space for manoeuvring in the Caucasus and massively undercuts its ability to project power. Georgian authorities, who now loudly complain at every venue about Russia's pressure, might look back on how forceful and reckless 'big neighbour's' behaviour was from autumn 1993 to mid-1994. Chechnya ties up more military forces that Russia can afford to deploy in the North Caucasus Military District and consumes so much resources that the Russian government dares not to count those – and that effectively eliminates the opportunity for Moscow to maintain a meaningful military presence in the Southern Caucasus.

Meeting with US journalists soon after the Ljubljana summit, President Putin claimed that he was 'bored' with explaining Russia's policy in Chechnya – and that is, quite possibly, true.^{xiv} He may be not just bored but sick and tired with this stubborn war whose political expediency has long since expired – but he cannot explain it away. Neither is there any easy way out available for him: President Yeltsin, a weak leader as he was, had the stomach to accept defeat, but President Putin, with all his apparent strength, cannot take it. His problem is that he has become a hostage of his sky-high approval ratings to a much higher degree than President Clinton ever was.^{xv} While the continuation of the war is gradually slipping below the 50% support level in opinion polls, any compromise would inevitably be interpreted as a victory for the rebels and would hardly be any more popular than the Khasavyurt accords of October 1996. Besides, the whole 'anti-terrorist operation' discourse is very unhelpful for a peace process: as a general rule, you do not negotiate with bandits and terrorists. Putin, being very insecure about his leadership, is afraid to show any sign of weakness, expecting that his whole system of vertical control would then collapse overnight.^{xvi}

At the moment, Putin is content with the stalemate in Chechnya and is able to keep the war low-profile, both domestically (tight control over media certainly helps) and internationally (there are always more burning issues to take, from the NMD to street riots in Genoa).^{xvii} But he is aware that this deadlock is sustainable only as long as the world oil prices remain higher than \$ 25 per barrel.^{xviii} In 2000, the official direct military costs of the operation were close to \$ 1 billion, and the overall costs were probably three times higher.^{xix} Even with this money promptly paid, the Army – involved not just in daily skirmishes but in confronting the people – is rotting to the

core and refuses to go along with Moscow's new line on 'winning hearts and minds' of the Chechens.^{xx}

It would have been very reassuring and academic to assert that there is no 'military solution' for Chechnya, but in fact this war is unwinnable only on the current level of military efforts. A determined escalation can, however, open a way to victory.^{xxi} This tiny piece of land with perhaps half a million inhabitants can be conquered and 'pacified' by consistent application of deadly force, including such tactics as 'carpet bombing' and dense mining, which would turn most of the Argum and Vedeno gorges and, perhaps, Grozny as well, into 'scorched earth'. It is becoming increasingly difficult for Putin to opt for such a Stalinist victory, but the decision on the course of action in Chechnya cannot be postponed much longer than the third winter of the second campaign.

III. Oil: What Great Game?

Terry Adams has delivered us a very rich analysis of the prospects of the Caspian Sea hydrocarbon resources development, so there are only a few points that can be added as far as Russia's stakes in this game are concerned. It may be interesting to point out, retrospectively, that the oil factor did not play much of a role in Russia's pro-active policy in the region from mid-1992 to mid-1994. Moscow, focussing on conflict management, completely missed the start of the 'Great Game' and was taken by surprise by the signing of the 'contract of the century' in Baku in September 1994, despite the direct involvement of LUKOil and the participation in the ceremony of a representative of the Fuel and Energy Ministry.

I would not over-estimate the oil factor in the decision-making in the Kremlin leading to the first Chechen War, chaotic as it was, but obviously in the following three years the Russian leadership was involved in various and often ill thought through intrigues, mostly featuring pipelines. What is really important here is that sometime in mid-1997 a serious assessment was done in Moscow, and its bottom-line was that the major international oil companies were in no particular hurry to bring the (significantly over-estimated, as Terry Adams has just confirmed) Azeri oil resources to the Western markets. From that moment on, the main conceptual framework for the 'Great Game' has become geo-economic rather than geopolitical. While the Clinton administration became obsessed with the Baky-Cheyhan project, Moscow consistently presented cost-effectiveness as the basic criteria and was advancing the Tengiz-Novorossiisk project, implicitly playing the Kazakh oil against the Azeri oil. This strategic pipeline is now

ready and oil is being pumped into it as our conference proceeds, so that the first tanker with 'big Caspian oil' is scheduled to leave Novorossiisk in August.

What has changed since Putin took control over Russia's hand in the game? He wasted no time to confirm that the Caspian area is of vital importance to Russia: the Security Council had a special meeting for setting new guidelines here as early as April 2000.^{xxii} Since then, special presidential representative Viktor Kaluzhny (well-qualified for the job as the former energy minister) has been involved in much shuttle diplomacy across the region, the main focus of which appears to be the sea borders delimitation. The deal was all but finalized by this spring and the visit of Iranian President Mohammad Khatamani to Moscow in March 2001 was expected to cross all t's – but it crossed the deal instead.^{xxiii} Russian officials now try to downplay this failure (Bakhtier Hakimov will give you the most recent take on that), but with the hindsight it is hard to explain why Moscow wanted to strike this deal so hard. It is certainly not needed for implementing the current projects and the Russian oil companies are not at all desperate to but it in the basis of new contracts.

This episode has all the typical features of an over-centralised political course where (mis) perceived security interests dominate over economic logic. President Putin certainly takes oil interests very seriously, but he is firm set that the oil companies should serve the interests of the state – and not the other way around. Placing a trusted lieutenant to direct GAZPROM and taking LUKOil on a short leash, Putin expects these 'giants' to be instrumental for his state-rebuilding project. He does not seem to be aware that there is no control without responsibility and – as long as the oil prices remain high – he can indeed ignore this conventional wisdom, but if their sliding below the \$ 25 per barrel (as registered this July) continues – he is in trouble.

This, in fact, is one of the most significant underlying fears in Putin's presidency. He knows all too well that while it was Chechnya that propelled him to the summit of power, it is the massive extra income from oil and gas that has allowed him to consolidate power and remain popular. He has a few top-class professionals around who keep reminding him that high oil prices are a function of limiting the supply. Russia has no say in the distribution of the OPEC quotas, but it has certain levers that are useful in slowing down the development of the Caspian oil. Whatever the long-term pipeline projects are, it is important to remember that politics – and, contrary to Marx, in Moscow it does take precedence over economics – is always about winning the next elections.

IV. Unilateralism: What International Organizations?

One distinctive feature of Putin's foreign policy is low attention to key international organizations. Being a firm believer in one-on-one diplomacy, Putin has shown little respect to rules and norms – and little tolerance towards international bodies that seek to uphold those. The Council of Europe, with its ambivalent line on the Chechen war, makes a perfect example but for the Caucasus more broadly, the OSCE makes an even better one. Gorbachev saw this organization as an embodiment of the 'All-European House', but for Yeltsin it was a rather uncomfortable forum where he for the first time found himself in the minority of one at the December 1994 Budapest summit. For some time after that, Russia tried to play the OSCE against NATO enlargement,^{xxiv} but when this intrigue proved to be futile, Moscow lost interest completely. You may now and again find some of the old rhetoric in the current political PR in Moscow, but basically this organization is seen as irrelevant. For instance, applying various power levers on Georgia earlier this year, Moscow appeared to be completely unaware of all the useful work the OSCE is doing in this country (Giorgi Burduli has given us a useful overview and Major-General Bernd Lubenik has supplied plenty of detail). As for the Nagorno Karabakh peace process, it is perceived very much as guided by the US, France and Russia under the habitual label of the Minsk group.

Much the same attitude can be found in Moscow's current plans for the CIS, an organization of its own creation. Putin has no sentimental feelings about this paper-producing body and no personal stake in its survival. He definitely prefers to deal with the neighbours individually, which gives them fewer chances to gang together, as they did at the Kishinev CIS summit in October 1997. Recent CIS meetings were hardly anything more than venues for staging mini-summits (like, for instance, with Armenian and Azerbaijani presidents in Minsk in May 2001), where real issues were taken. If the CIS is disbanded tomorrow (and there have been warning signals from Moscow in this regard), it will hardly make any difference at all in the Caucasus. For that matter, we can register certain efforts in Moscow to set some sub-regional frameworks for Central Asia (some of those with China), but in the Caucasus it has been strictly unilateral so far. And that definitely undermines what little promise there is in the EU's half-hearted intentions for the Caucasian Regional Stability Pact.

One exception from the general neglect of international organizations in Russia's policy appears to be the G8, but in fact the visible attention to this body betrays a passion for 'exclusive clubs', like the Contact Group or, most significantly, the UN Security Council. Membership in such narrow structures is perceived as extremely important for Russia's international prestige and profile. For that matter, being one of the three co-

chairmen for the Nagorno Karabakh peace process is perceived as a privilege, which guarantees a reasonable constructive participation – but not a strong drive for success (as we have seen after the Key West Meeting, on which Gerard Libaridian has elaborated).

One remarkable consequence of Russia's unilateralism in the Caucasus has been the changing attitude towards Turkey: this country is increasingly perceived as a good neighbour and valuable partner, rather than as a NATO member or a vanguard of the 'Islamic threat'. Before recently, even such moderate and balanced analysts as, for instance, Alexei Arbatov, were speaking about Turkey mostly in terms of 'hegemonic aspirations',^{xv} but now the agenda is crowded with issues like gas export, shuttle trade, tanker traffic in the Straights, construction projects in Moscow, etc. The key litmus test appears to be the wars in Chechnya, and Turkey – with its very cautious and self-restrained policy – has passed with no reservations in Moscow.

V. Conclusions: What Status Quo?

What the above abbreviated analysis boils down to is the single point that Russia is now essentially a status quo power in the Caucasus. Under Putin's leadership, its policy has become better organized but not better planned; Moscow more often simulates activity that acts pro-actively. Hence a rather ambivalent attitude to conflict resolution: while stability is declared as the main goal, there are serious worries that a real peace would quickly erode Russia's influence and leave it with only symbolic role. Moscow is quite satisfied with current regimes in all three South Caucasus states, seeing no need to question their democratic credentials but knowing intimately how to squeeze where it hurts. The problem here is that the regimes in Georgia and particularly in Azerbaijan have exhausted most reserves of sustainability and are looking into very uncertain transitions. Moscow has no game plan for these forthcoming bitter clashes for power and is ill-prepared for any new violent conflicts. The status quo is quickly eroding but Moscow, having few options for arresting this trend, continues to cling to the comfortable today.

NOTES AND REFERENCES

^{xii} I have looked in some detail into the twists and turns of Russia's policy up to the end of the first Chechen War in Pavel Baev, *Russia's Policies in the Caucasus*. London: RIIA, 1997.

^{xiii} This presentation builds on my recent paper *Russia Refocuses Its Policies in the Southern Caucasus*, Caspian Studies Program, Harvard University, July 2001.

^{xiv} For the full transcript of the interview, see *Johnson's Russia List* no. 5354, 19 July 2001.

^{xv} For an insightful view on this dependency see Yuri Levada, 'Spring 2001: Deeds and Symbols', *Nezavisimaya Gazeta*, 16 May 2001.

^{xvi} In this respect, it is characteristic how Putin explained the need to raise the *Kursk*: the first reason given by him was that his promise had to be made good, since it involved the question of confidence in the leadership. For the full text of the press-conference of 18 July 2001 see (<http://president.kremlin.ru/events/264.html>).

^{xvii} For the reflections on the G8 summit and Chechnya, see Quentin Peel, 'A Bloody Flaw in Putin's Plans', *Financial Times*, 23 July 2001.

^{xviii} It is calculated that every \$ 1.0 rise in Russia's Ural blend contributes 0.4% to the country's GDP. See Sujata Rao, 'Russia's Oil, Metals Fuel Economy Cause Problems', Reuters in *Johnson's Russia List*, no. 5325, 27 June 2001.

^{xix} See Vladimir Georgiev, '\$ 330 Million on Fighting Chechen Guerrillas', *Nezavisimaya Gazeta*, 17 July 2001.

^{xx} The brutal *zachistki* (this term for house-to-house search operations has entered the military vocabulary from Chechnya) in Sernovodsk and Assinovskaya in early July were definitely unhelpful for fine-tuning this line. For international reaction, see *Johnson's Russia List*, no. 5341, 7 July 2001.

^{xxi} For my more elaborate analysis of this option, see Pavel Baev, 'Will Russia Go for a Military Victory in Chechnya?', PONARS Memo 107, Harvard University, February 2000.

^{xxii} For a solid analysis see Amy Myers Jaffe & Robert A. Manning, 'Russia, Energy and the West', *Survival*, Summer 2001, pp. 133-152.

^{xxiii} For an updated and insightful analysis see Brenda Shaffer, 'Partners in Need: The Strategic Relationship of Russia and Iran', *Policy Paper 57*, The Washington Institute for Near East Policy, 2001.

^{xxiv} Some reminiscences of this line can be found in Putin's remarks (at the July 18 press-conference, full text at <http://president.kremlin.ru/events/264.html>) on creating a new broad-based organization in Europe, since those, 'who do not want to see a common security space in Europe, are shifting the OSCE to the Central Asia and the North Caucasus'. The effect was predictably weak, see Jeffrey Ulrich, 'Putin's Blast at NATO Gets Shrug', AP from 20 July 2001 in *Johnson's Russia List* 5357.

^{xxv} For a good example, see Alexei Arbatov, *Bezopasnost: Rossiiskiy Vybor* (Security: Russia's Choice). Moscow: Epicenter, 1999, pp. 161-162.

THE VIEW FROM MOSCOW

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The Caucasus is an integral region, the North Caucasus of Russia being its essential part. Thus, Russia is a Caucasian country and therefore has a vital stake in the political and economic life of the region.

It is obvious that the countries of the region cannot develop outside the framework of the general Caucasian historical process. Wide economic and cultural cooperation, close ties between people of various ethnic origin and religious affiliation have always been determining factors in the history of this region. They remain significant under the contemporary conditions too. Scientific-technical links and humanitarian ties at the personal level, as well as labor migration between Russia and the countries of the Southern Caucasus remain particularly intensive. All these factors have to be taken into consideration both in national policy and interstate cooperation.

It is becoming ever more evident that the peoples of the Caucasus have common aims and interests, especially in promoting stability, economic and social progress in the region.

The speakers have given an account of such obvious "Caucasian challenges" as ensuring peace and security through resolving acute conflicts, and the need to develop energy resources of the region. It is understandable that these tasks are interrelated. Without resolving the conflicts, we will not be able to tap the resource potential of the Caucasus in full for the benefit of its peoples and the world economy. On the other hand, dynamic economic development is the best remedy for relapses of interstate and inter-ethnic animosity.

Considering the strategic importance of the region, determined above all by the huge energy resources concentrated here, the world's growing interest in the Caucasus appears to be legitimate. Today there is no shortage of ideas as to possible answers to the "Caucasian challenges." Regional security and cooperation projects alone number almost ten now. The United Nations, the OSCE and - ever more actively - the European Union are concerned with Caucasian affairs in one way or another. The list could be extended.

Let me state clearly that Russia regards such international activity with interest and attention. We are far from claiming a monopoly position in regional political and economic cooperation. The active role of the international community is welcome. It is significant that the problems of the South Caucasus have become a permanent agenda item for contacts at the highest level between Russia and its western partners.

Russia is willing to cooperate with all members of the world community and international organizations that strive to facilitate the solution of the acute problems of the Caucasus and the development of cooperation there, primarily in the economic sphere.

Russia believes that to make such cooperation productive in terms of reaching the aims declared, the key role in the affairs of the region should be played by the states located there. In this context we attach great significance to regional cooperation of Azerbaijan, Armenia, Georgia and Russia within the "Caucasian Four" group. A regular "Caucasian Four" Summit was held on May 31, 2001 and the outcomes of this meeting were most positive.

The issues related to settling the conflicts in the region were rather in detail discussed yesterday. I only wish to confirm that Russia is ready to contribute to their early resolution by peaceful political means. And we do make this contribution – in the diplomatic field as well as through peacekeeping, which, sadly, has already claimed the lives of 67 of our soldiers.

Talking about this, I would like to refer to some remarks made here concerning Russian policy towards Georgia, which seem to me, at the very least, inaccurate. I have to remind that Russian soldiers are in Abkhazia, Georgia on a CIS peacekeeping operation, their mandate subject to periodic extensions depending on requests by the Georgian side. Being directly involved in the process, I know very well that since the PCO was launched in 1994, Georgia has been regularly - twice a year - applying to the Council of the Heads of State of the CIS, formally asking to extend the peacekeepers mandate for another six months period. At no time such extensions were initiated or insisted upon by Russia.

An all-important field of cooperation in the Caucasus is combating international terrorism and extremism. Let me just mention regular meetings of the ministers of internal affairs of Azerbaijan, Armenia, Georgia and Russia. All the four countries also participate in the activities of the CIS Antiterrorist Center based in Moscow.

Russia is interested in developing economic cooperation in the Caucasus. We applied for observer status in TRACECA. Our approach to the international projects in the energy and transportation field is simple: they must be economically viable - not politically motivated.

Finding a mutually acceptable solution on the status of the Caspian Sea is of crucial importance for the prospects of economic cooperation and political stability of the region. Russia is pursuing a constructive and balanced line in the negotiations.

Solutions, offered as answers to the challenges, should not lead to the emergence of new dividing lines in the Caucasus. This is one of the major principles agreed upon by the leaders of the Caucasian Four group.

Russia fully recognizes the right of its Caucasian neighbors to freely choose partners and develop cooperation with any countries. As I said, we are for broad international cooperation to make the Caucasus stable and peaceful. Therefore we deem it necessary to avoid interstate military-political rivalry in the Caucasus, and consider unacceptable any moves neglecting legitimate interests of the regional states, including Russia.

FACTORS CONSTRAINING THE SUCCESS OF THE CIS

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One of the more serious problems in the international relations of the former Soviet region is the weakness of indigenous structures of regional co-operation. This weakness could to some extent be compensated for by the enlargement of broader European institutions. However, it seems clear that, with the exception of the Baltic Republics, the more substantial of these institutions (the EU and NATO) are unlikely to expand into this space. In the meantime, the CIS has failed to develop a substantial and effective institutional presence and role. It is widely perceived to be irrelevant, if not moribund. The various sub-regional triangles, quadrilaterals and pentagonals have fared little better. Arrangements with Russia at the centre don't work; institutions without Russia (e.g. the Central Asian Customs Union) or balancing against Russia (e.g. GUUAM) also have had little impact on the politics, economics, and security of the region. The result is an institutional deficit that renders it very difficult to deal with the many severe collective action problems (trade and investment regulation and promotion, collective defence, migration, environmental degradation, control of crime, counter-terrorism) afflicting the twelve republics.

In a way, this is a surprising outcome. The former Soviet republics emerged into independence tightly linked in infrastructural terms (and weakly linked to the rest of the world, except through Russia), and deeply interdependent in trade. Their political elites, on the whole, shared a long history of close association and often personal contact within union institutions. Moreover, they faced similar problems of economic and political transition, the negative consequences of which could be softened through regional co-operation. This short paper is an effort to explain why, despite these incentives for co-operation, effective multilateralism has failed to emerge.

It is, of course, true that the outcome can be explained in part in terms of the CIS itself as an institution. Its decision-making rules and procedures are dysfunctional. Decisions of the institution do not require consensus. Dissenting states are not bound by a decision when they dissent from it. There are no effective mechanisms for monitoring the compliance of states that accept a decision formally. There are no effective multilateral mechanisms for punishing states that fail to honour their commitments. The CIS Secretariat is under-resourced, weak, and clearly incapable of implementing or enforcing agreement.

But this approach does not get us very far. It leaves open the question of how one explains the deficiencies in decision-making procedures, the feebleness of compliance mechanisms, and the inadequacies of administration. In international relations theory, there are at least three major contending approaches to the explanation of co-operation in an anarchic system. The realist tradition focuses on power; hegemonic states define the structure of co-operation. The hegemonic power may prefer a stable, predictable environment and has the power to secure it. Although the design and imposition of co-operation is essentially unilateral and self-interested, it may produce public goods for less powerful states by enhancing predictability and stability of transactions in the system. More liberal perspectives focus on mutual gains from co-operation (stability, predictability, and reduced transactions costs) in explaining multilateralism. Constructivist approaches focus on shared identities and communities of value and understanding as a basis for co-operation. All of these are no doubt helpful in explaining multilateralism; none applies in the CIS space.

With regard to the first, hegemonic stability presumes hegemonic capacity – the power to impose outcomes on weaker states. Although the Russian Federation is massively more powerful than the others in the crude measures of power (population, economic weight, military capability), it has proven incapable of marshalling these capabilities effectively in a regional foreign policy. The Russian state experienced an economic crisis associated with price reform in 1992, followed by a deep three-year economic contraction. The resumption of growth in 1995-6 was then cut short by the currency crisis of 1997-8. The state itself displayed at best a modest capacity to secure public revenue through taxation. It proved incapable of preventing corruption in the disposal of state assets, and was seemingly powerless in the face of massive capital flight. The military was starved of resources and shrank rapidly both by design and owing to the collapse of the conscription system. Military capabilities, strategy and doctrine – focusing as they did on major war in Central Europe – were ill suited to the peculiarities of the post-Soviet security environment. The consequences were evident in Chechnya in 1994-6. Russia's neighbours drew the appropriate conclusion and this diminished the Russian reputation for power and capacity to influence the choices of others.

Beyond the capacity problem, Russia lacked a coherent and effective strategy for the CIS region. This shortcoming reflected the general chaos of Russian politics and the weakness of the Executive for much of the Yeltsin period. In my own area of expertise, one obvious example of the consequences of policy incoherence was the Russian response to the opening of the first new offshore oil platform of the Azerbaijan International Operating Company in the mid-1990s. The Chirag platform was in a maritime zone the ownership of which was hotly contested by the Russian Ministry of

Foreign Affairs. Boris Nemtsov, then Russian Minister of Energy, attended the opening ceremony and congratulated Azerbaijan on its achievement in bringing the field into production, acting in direct contravention of the Russian position on the Caspian Basin legal regime. This is not strategy.

The ambiguities of Russian foreign policy extended to regional institutions. One critical constraint on the success of the CIS was an apparent and growing Russian emphasis on bilateral relations with member states. This preference reflected not only the weakness and unreliability of CIS structures, but also an understanding that effective regional multilateral institutions could constrain Russia's flexibility in the region. In part, the CIS has failed because Russia has not been committed to its success.

In short, co-operation based on hegemony was problematic, given the weakness and incoherence of the potentially hegemonic power.

As noted, the second approach to the explanation focuses on mutual advantages accruing from joint action. The material basis for such mutual advantage was clearly present. However, there were important subjective barriers to realising this material potential. In the first place, many in Russia questioned the equality of other states in the region. Given their historical experience with Russia, Russia's partners had good reason to be suspicious of Russian intentions. These suspicions were enhanced by perceived Russian interference in civil disputes in Azerbaijan, Georgia, Moldova, and Tajikistan in the early 1990s. Consequent insecurity over sovereignty impeded co-operation that might involve the pooling of sovereign powers and induced some effort to balance against, rather than co-operate with, Russia.

More broadly, the capacity of the region's states to co-operate in pursuit of mutual gains depended to an extent on stable expectations regarding each other's behaviour and reliability. It takes time for such expectations to develop. The states making up the post-Soviet system have not had sufficient time.

The significant instability of many of the region's component parts has also inhibited the development of such expectations. Predictability in interstate regimes is related in considerable measure to the effectiveness of states as foreign policy actors. Liberal and realist theories of co-operation both assume that states are coherent rational actors. They are in a position to marshal capabilities and direct them consciously towards objectives derived from a conception of national interest. The weakness of the Russian state mentioned above was equally if not more evident amongst its neighbours.

Weak states are not good at delivering on their commitments. When states cannot police their borders, what is the good of a multilateral visa and border control regime? When they cannot control movement of goods, the advantages of a trade regime are unclear. The pursuit of interstate co-operation in law enforcement is less attractive when the parties are incapable of enforcing order and the rule of law within their own borders. In short, both systemic and unit level factors have constrained the success of both the CIS and sub-regional institutions.

Finally, and briefly, there is the role of communities of value and trust as societal characteristics promoting co-operation. Here, there is no point in lingering. Such communities of trust again need a long time to develop in general; the history of the post-Soviet region is short and unhappy. They develop more easily in culturally homogeneous regions; the former Soviet Union is highly diverse in cultural terms. There is no stable community of values in the CIS to form the subjective underpinning to regional multilateralism. The internal politics of the states of the region have been characterised by substantial contestation between liberalism and statism in the economy, between democracy and authoritarianism in politics, between legality and criminality in private behaviour, and often between competing national and religious perspectives as well. Such high levels of contestation within states are unlikely to favour co-operation among them. Nor is there much evidence of agreement on international norms (e.g. non-aggression, non-intervention, equality of treatment) among the states of the region. Communities of values are not only based on shared norms; they are underpinned by mutual trust. This trust is absent.

In short, there is little difficulty in identifying factors constraining the success of the CIS. The challenge lies in defining ways to mitigate these factors, and appropriate roles for outside organisations and states in this effort at mitigation.

NATIONAL AUTHORIZATION FOR PARTICIPATION IN PEACEKEEPING OPERATIONS IN THE CAUCASUS: LAW AND PRACTICE¹

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I. Introduction

The national mandate for deployments in peace support operations is an issue that has by and large been overlooked by scholars and, our colleagues from the UN, or the OSCE, or the EU would correct me if I am wrong, by international institutions that are engaged in such operations. The development of the concept and practice of peace support operations, however spontaneous and controversial that process sometimes may be, raises several fundamental issues relative to the national authorization of foreign deployments. What could be a domestic justification for intervention in a foreign intra-state conflict? Is authorization by the UN Security Council essential for general acceptance of the legitimacy of the use of military forces? Is the authorization of a body like the CIS Council of the Heads of State sufficient for those taking part in the operation, as well as for those who do not? How do non-CIS members see such actions? What is the distribution of authority between the executive and the legislative branches of government with regard to foreign military deployments? When do national legislative bodies of countries have to take specific action to authorize participation of their country's military forces in international operations? To whom are military commanders responsible? What rules of national and international law govern the conduct of military personnel participating in such operations? Will the establishment of an International Criminal Court make any difference in the actions that high-level officials are willing to take or in attributing individual responsibility to soldiers who take part in international operations?

To seek answers to those questions even a dedicated seminar or conference would hardly suffice. I would not even try to do it in my short presentation. However, let me alert you to a book that is the product of a multidisciplinary study by an international team of authors under the auspices of the American Society of International Law. Its title is *Democratic Accountability and International Institutions: Using Military Forces*, it is edited by Charlotte Ku and Harold Jacobson and will be published early next year by the Cambridge University Press. As the editors write in the introductory chapter, 'the

¹ Views expressed herewith are solely those of the speaker.

central focus [of the book] is on an issue that has largely been ignored in the growing literature on using military forces under the auspices of international institutions: the question of how to ensure democratic accountability^{xxvii}. Apart from several chapters that address the problem in a variety of its aspects, there are also nine country-specific chapters that discuss the experience of Canada, France, Germany, India, Japan, Norway, Russia, the UK, and the US.

II. Russian legislative basis

Turning now to national authorization as it relates to Russian involvement in peace support operations in the Caucasus let me first discuss the current law.

Even a quick look at the distribution of authority between branches of Government under the Constitution of the Russian Federation of 1993 and relevant laws demonstrates a striking imbalance especially with regard to foreign affairs and the use of military power. The Constitution vests the bulk of those powers in the President, who is the head of state and the Supreme Commander-in Chief. The President's authority with regard to foreign affairs and military power is augmented by his direct control over respective departments of the executive branch that is not reflected in the text of the Constitution.

The respective powers of the legislative branch, which are distributed between the State Duma and the Council of Federation which are the two chambers of the Federal Assembly, are rather modest. Of course, they have the power of the purse. As for the more specific powers, the two chambers share the power to ratify and denounce international treaties, as well as to pass laws «on questions of war and peace»^{xxviii}.

A provision of the Constitution that is most relevant to this discussion delegates to the Council of Federation the power to resolve «*the question of the possibility of using the Armed Forces of the Russian Federation beyond bounds of the territory of the Russian Federation*»^{xxix}. As of today, this provision has only been invoked to authorize deployments (or extension of deployments) of Russian forces participating in operations under international auspices.

There is also a special Law under a rather lengthy and conspicuous title - «*On the Procedure for the Provision by the Russian Federation of Military and Civilian Personnel for the Participation in the Activities for the Maintenance and Restoration of International Peace and Security*»^{xxx}. Comprising only eighteen articles, it is a rather concise piece of legislation. Chapter I contains general terms and definitions; Chapter II

specifies procedures for the provision of personnel for peacekeeping operations while Chapter III deals with such procedures in cases of international enforcement measures involving armed forces. Chapter IV sets general rules for training, supply and support of personnel involved in peacekeeping and international enforcement operations. Finally, Chapter V requests the executive branch to report annually to both chambers of parliament on Russian participation in activities for the maintenance or restoration of international peace and security.

The Law in its Art. 2 defines those activities as *«operations for the maintenance of peace and other measures undertaken by the Security Council of the United Nations under the UN Charter, by regional agencies, or under regional arrangements or agreements of the Russian Federation, or under bilateral and multilateral international treaties of the Russian Federation, which are not enforcement measures in the meaning of the UN Charter, as well as international enforcement measures involving the use of armed forces employed in accordance with the decision of the UN Security Council, made under the UN Charter, to remove any threat to the peace, breach of the peace, or act of aggression»*.

As for the procedure established by the Law, the authority to send individual servicemen to participate in peacekeeping operations, or to recall them, rests solely with the President. The decision to send civilians is taken by the Cabinet.

The procedure is more elaborate if entire units are being assigned to an operation. In that case the President files a proposal for a dispatch of troops with the Council of Federation of the Federal Assembly. The proposal should contain details of the area of the area of deployment, description of mission, numerical strength and composition of the unit, subordination, duration of deployment, procedures for rotation and withdrawal, as well as of salaries, allowances, benefits and compensation for servicemen and their families. The proposal is then voted upon by the Council of Federation and subsequently the President issues a decree ordering troops into action.

Of course, the State Duma passes the budget and may influence the decision on the amount of funding allocated for foreign deployments. It passes laws on ratification of international treaties that may provide for such deployments. It may occasionally vote on non-binding resolutions stating its position on current missions. For example, at least twice when the mandate of the Collective Forces for the Maintenance of Peace in Abkhazia, Georgia was about to expire, the State Duma adopted resolutions appealing to the President and the Council of Federation to initiate the extension of the mandate^{xxx1}.

Nonetheless, it is the Council of Federation with which the President is obligated to share the burden of decision to send forces abroad.

III. The Caucasus Experience

Let me recall the Caucasus experience recall that under the Law on the Provision of Personnel the authority to send individual servicemen to international missions rests solely with the President. For example, on 7 October 1994 President Boris Yeltsin signed a Directive authorizing Russian officers to join the UN Observer Mission in Georgia^{xxxii}. It had not been amended and remains in force as promulgated, and officers that are being assigned to UNOMIG receive their orders with reference to that Directive.

The Council of Federation steps in when the decision is taken to dispatch self-contained units. The Rules of the Council of Federation provide for deliberations on the question of the possibility of using the Armed Forces of the Russian Federation abroad to be held in a closed session, unless the chamber decides otherwise^{xxxiii}. The Rules provide that minutes of such meetings, as well as results of voting would not be made public, and only the text of the resolution would be released. That notwithstanding most of the times when the Council of Federations decides on foreign deployments hearings are held in open session.

The parliamentary history, albeit brief, proves that a more extensive, substantive, as well as heated, discussion is likely to occur when the Council of Federation is taking a decision on initial deployment of Russian forces, although the initial resolution of the Council of 21 June, 1994 authorizing deployment in Abkhazia, Georgia^{xxxiv}, had been deliberated behind closed doors. In fact, the President first approached the Council with request to authorize the deployment on 25 May 1994, but at that time the deputies deferred the decision^{xxxv}.

Subsequently the willingness of the deputies to raise and debate issues seems to be waning and decisions are taken almost automatically. The debate in the Council on the first extension of mandate was rather an exception as it was lengthy if not heated. It occurred on 18 January 1995 when the so-called 'First Chechen War' was not yet one month old but already resulted in numerous casualties. Quite a few deputies clearly linked the issue with alleged Abkhazian involvement in the armed conflict in Chechnya^{xxxvi}.

As to the President, he bears the final responsibility for the decision to deploy troops abroad. Of course, should the Council of Federation reject the President's request to

give consent to such deployment, it will be deprived of constitutional grounds. However, the Council may not force the President to send troops to a foreign mission. It may happen that after the President files a request, and the Council approves the deployment, some change of circumstances would force the President to decide against deployment, and that decision would be within his authority.

The practice of the President acting after the Council of Federation has given its consent to deployment has so far been rather uneven.

With regard to participation of Russian units in the Collective Peacekeeping Forces in Abkhazia, Republic of Georgia, the President signed Decree #1178 of 9 June 1994 which by para.1 authorized Russian participation in a CIS operation in that region^{xxxvii}. The Decree did not specify the duration of Russian participation in the operation making it contingent on further action of the CIS Council of the Heads of State. It also provided in para.3 that actual deployment could only commence after the Council of Federation had given its consent in accordance with Art.102(1d) of the Constitution. As I already indicated, that consent would not be given until 21 June. It should also be recalled that the Law on the Provision of Personnel would not be adopted until a year later, so the President and the Council were developing rules to be written into a statute. It was implied that the original Decree would suffice for an indefinite deployment pending decision of the CIS on continuation of the operation. The President would file a respective request with the Council of Federation each time the CIS decided to extend the mandate of the Collective Forces. As the CIS failed to do so on time, so did the Russian President. And in the absence of the petition the Council of Federation did not take the initiative. As a result, there have been several periods when units were in the area with no international or national mandates. Thus in the period between 17 July 1998 and 19 April 2000 the Council had not passed resolutions extending the authorization to deploy Russian forces in Abkhazia. In the absence of such authorization the Ministry of Finance had formal grounds not to fund Russian participation in the mission, thus leaving servicemen without their salaries and hardware without proper maintenance.

The case of South Osetia is much less documented which makes it so simple for a formal legal analysis. The peace support operation there is based on the Agreement between Russia and Georgia on the Principles of the Settlement of the Georgian-Osetian Conflict of 24 June 1992^{xxxviii}. The national authorization is minuscule. The deployment of the Russian component of the quadripartite security and public order mission had been authorized by the Directive of the Cabinet of 2 July, 1992^{xxxix}, not even by a decree of the President. The President never filed a petition to *ex post facto* authorize that deployment. The Council of Federation never tried to assert its constitutional prerogative. Only once in January, 1995 a deputy raised an issue with no subsequent debate or legislative action^{xl}.

IV. Conclusion

So far the Council of Federation, if asked, has never refused to give consent to a request for authorization of a foreign deployment. It is hard to predict what may cause the Council of Federation to refuse to give consent or to withdraw the one already given - imminent danger, or actual loss of lives of Russian servicemen? So far the Council has been rather insensitive to casualties sustained by the Russian military in Abkhazia. Scarce funding? Or could such participation fall prey to a new confrontation between the President and parliament? As the Council-packing plan introduced by President Putin is being put to life such confrontation between the reformed chamber and the current President becomes even less likely. That leaves the State Duma which occasionally acts in opposition to the President. However, its powers in matters of national authorization of foreign deployment of Russian forces are rather limited.

NOTES AND REFERENCES

^{xxvi} I wish to acknowledge kind permission of Ms. Charlotte Ku, the Executive Vice-President of the American Society of International Law and co-editor of the *Democratic Accountability and International Institutions: Using Military Forces* (Cambridge University Press, forthcoming in 2002) to use portions of my contribution to the book in remarks made at this Seminar.

^{xxvii} Charlotte Ku and Harold Jacobson, *Broaching the Issues*, in: *Democratic Accountability*.

^{xxviii} The Constitution of the Russian Federation of 1993, Art.106(f).

^{xxix} *Id.*, Art.102(1d).

^{xxx} *Sobraniye Zakonodatelstva Rossiyskoy Federatsii* (Collection of Laws of the Russian Federation), hereafter – SZ RF, 26 June 1995, #26, Art.2401.

^{xxxi} Resolutions of 23 June 1997 #1610-II (SZ RF, 7 July 1997, #27, Art.3176), and of 16 July 1998 #2860-II (SZ RF, 27 July 1998, #30, Art.3726).

^{xxxii} SZ RF, 10 October 1994, #24< Art.2635.

^{xxxiii} SZ RF, 12 February 1996, #7, Art.655, as amended.

^{xxxiv} *Vedomosti Federalnogo Sobraniya Rossiyskoy Federatsii* (Records of the Federal Assembly of the Russian Federation), 1994, #6, Art.262.

^{xxxv} See minutes of the Plenary Meeting of the Council of Federation on 31 May 1994 in: *Sovet Federatsii, Zasedaniye Shestoye* (The Council of Federation, Sixth Meeting), Moscow, 1995, p.236-248.

^{xxxvi} See minutes of the Plenary Meeting of the Council of Federation on 18 January 1995 in: *Sovet Federatsii, Bulletin'* (Bulletin of the Council of Federation) #2(51), 18 January 1995, p.20-29.

^{xxxvii} SZ RF, 13 June 1994, #7, Art.690.

^{xxxviii} *Bulleten' Mezhdunarodnykh Dogovorov* (Bulletin of International Treaties), 1993, #8.

^{xxxix} Unpublished, on file with the author.

^{xl} See footnote 11, p.24.

CONFLICTS IN THE SOUTH CAUCASUS, AN OVERVIEW²

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I. Introduction

The territorial division of the South Caucasus (Armenia, Azerbaijan, Georgia) into the following autonomous entities may be seen as one of the most complex in the context of the former Soviet Union:

- Within Armenia, the Autonomous Republic Nakhichevan, territorially not connected with but belonging to Azerbaijan, mainly populated by Azerbaijanis and bordering on Iran and Turkey (approx. 12 km);
- Within Azerbaijan, the Autonomous Region Nagorny-Karabakh (mainly populated by Armenians), territorially not connected with Armenia (a geographic distance of up to 10 km);
- Within Georgia, the Autonomous Republic Abkhazia (on the Black Sea, partly Moslem population), the Autonomous Republic Ajaria (on the Black Sea, bordering on Turkey, partly Moslem population), the Autonomous Region South Ossetia (bordering on Russia, closely connected with the Russian North Ossetia (Alania) Ethnically Iranian).

Generally, this Soviet territorial division resulted in the existence of three Union Republics (today independent states), two Autonomous Republics, and two Autonomous Regions - with Georgia undergoing the largest territorial subdivision within the former Soviet Union except Russia, with two Autonomous Republics and two Autonomous Regions.

Of these titular nations only the Georgians are ethnically a Caucasian people, whereas the Armenians are IndoEuropeans, and the Azerbaijanis are of turkic origin. Though the Abkhazians are Caucasians, they belong to a different branch of the Caucasian peoples (rather related to the Chechens which explains Chechen support for the Abkhaz struggle for independence in the beginning), with the Ossetians being ethnically Iranian.

² This contribution does not reflect the official position of the Austrian Federal Ministry of Foreign Affairs but gives a personal view of the author only.

From a religious point of view, apart from the autocephal Armenian and Georgian churches, Islam (Azerbaijani - mostly Shiites) plays a special role. Abkhazians and Ajarians are partly Moslems and the Iranian Ossetians are mostly Russian-Orthodox. This mixture of territories, ethnicities and other aspects finds its continuation in the North Caucasus as a part of Russia.

As the territory of Nakhichevan is not connected with Azerbaijan and Nagorny-Karabakh is not connected with Armenia, the two ethnically very closely related peoples of the Turks and Azerbaijanis have practically no common border (only approx. 12 km between Nakhichevan and Turkey). This is due to the Armenian-Iranian wedge which interrupts the connection of Turkey through Azerbaijan with the other Turkic peoples in Central Asia. Current debates concerning an Armenian-Azerbaijan territorial swap of the Meghri region (southern Armenia bordering with Iran between Azerbaijan and Nakhichevan) with the Lachin corridor, connecting Armenia with Nagorno-Karabakh, are based on this territorial division.

The division of the Ossetian territory between Russia and Georgia was doomed from the outset to foster tendencies of unification and secession.

The different steps of autonomy granted during Soviet times (Union Republics: Armenia, Azerbaijan, Georgia; Autonomous Republics: Abkhazia (short-term Union Republic), Ajaria, Nakhichevan; Autonomous Regions: Nagorny-Karabakh, South-Ossetia) as well as a deliberate separation of ethnic groups by means of adding territories to a titular power today serve to support territorial claims for a higher status of autonomy (South-Ossetia).

After the collapse of the Soviet Union and the winning of independence by the three Union Republics, there have been secession tendencies of various kinds by all the other autonomous entities.

Very soon after the collapse of the Soviet Union, the historic differences between Russia and Turkey as well as between Armenia and Turkey gave rise to a clearly accentuated axis between Russia-Armenia-Iran (as an antagonist of Turkey) against Ukraine-Georgia-Azerbaijan-Turkey-USA. Russia took advantage of the erupting territorial conflicts to strengthen its position in the region, and therefore had hardly any interest in finding a solution to these conflicts. Azerbaijan and Georgia saw themselves forced to enter the CIS at a later stage. Since the accession of these countries has not yielded any considerable impetus to a solution of the conflicts, a new grouping - GUAAM (Georgia, Ukraine, Uzbekistan and, since 1999, Azerbaijan, Moldova) - came

into being. The members of GUUAM all have had both a critical standpoint vis-à-vis Russia and territorial problems related to Russia (except Uzbekistan). Ceasefires in Abkhazia, Nagorny-Karabakh and South-Ossetia were concluded with a strong involvement of Russia. A final solution, however, can hardly be achieved without Russia. (There are mostly Russian CIS peace keeping forces in Abkhazia and Russia participates in the Control Commission in South-Ossetia).

In parallel to this development, mostly on the initiative of Armenia, two trilateral cooperation groupings emerged to break out of the Armenian economic blockade. These loose cooperation groupings are between Armenia, Iran, Greece on the one hand and Armenia, Iran and Turkmenistan on the other. The latter two, as energy suppliers, are very important for Armenia (they also have relatively strong Armenian minorities), and Greece and Iran are essential in stemming the role of Turkey. Despite its strong pro-Russian orientation, Armenia has long attempted to pursue a more globally oriented foreign policy. As an example, Armenia's foreign minister is American and the roots of Armenia are said to trace back to the Middle East.

The predominance of Russia must be seen in the context of a growing countervailing engagement of the USA and NATO in the region. Azerbaijan and Georgia have both indicated interest in a possible NATO membership and expressed their wish to see the deployment of NATO troops as a support to resolve the various conflicts. The primary interest of the USA, apart from demonstrating a strong anti-Russian presence in the Caspian region, lies in the oil and gas reserves (in southern Azerbaijan, Kazakhstan and Turkmenistan in Central Asia) and supply of the world markets by circumventing Russia and Iran. In this respect, the construction of the Baku-Ceyhan oil pipeline and the Transcaspian-oil/gaspipeline by the US is to be taken into account, although the de facto existing oil reserves are often exaggerated. Georgia, as the only country in the region with access to the sea is playing a major role. Romania, with its borders on the Black Sea, also has a strong interest in playing a role as a link between Europe and the South Caucasus / Central Asia.

Despite its geographic closeness to the region, the European Union (Europe) has to date merely played the role of the third actor. Though it has concluded partnership and cooperation agreements with all three states and is involved in the region through TRACECA and INOGATE, it has so far practically not been able to agree on an accentuated South-Caucasian policy. This is despite the fact that it is the biggest aid donor to the region. However, a special relationship exists between Germany and Georgia due to Shevardnadze's role in the reunification of Germany. All three states see themselves as Europeans though in the beginning their belonging to Europe was

questioned. Since the beginning of 2001 all three states are full fledged members of the Council of Europe.

Various stability plans for a final reconciliation and the creation of economic prosperity and stability have recently been elaborated based on the initiative by Shevardnadze for a "Peaceful Caucasus", the proposals of the Armenian President Kocharian (3+3+2) and the Azerbaijani President Aliiev as well as the US initiative (Talbot) for an intensified economic cooperation in the region (which failed in autumn 1999), and on the proposal by Demirel for a Caucasus stability plan (based on the Balkan stability plan) as well as the latest EU studies on this issue. The delicate questions are, apart from the financing, the time frame for the implementation of such a plan (before or after the solution of the conflict), the involvement of non-regional forces and their role - particularly that of Iran - (and its relationship to the OSCE since Iran is the only non-OSCE-member state in the region) - and various steps and forms of integration. A detailed description of the "Stability Plan for the Caucasus" presented by the Centre for European Political Studies in Brussels will be given at the end of this article.

II. Discussion of the various territorial conflicts will be discussed individually.

1) Abkhazia

Abkhazia - one of the autonomous entities of Georgia - is an Autonomous Republic and was a Soviet republic in early Soviet times. In 1930, as a gift by Stalin to Georgia, its status was, however, reduced to the level of an Autonomous Republic of Georgia. The Abkhazian language does not belong to the same group of Caucasian languages as the Georgian, a certain part of the Abkhaz population is Moslem.

During Soviet times, Abkhazia was populated mostly by Georgians, whereas Abkhazians constituted only about 20% of the population. Since the eruption of the conflict in Abkhazia, more than half of the originally approximately 530,000 inhabitants have left Abkhazia. Today, with about 40% of the population, the Abkhazians make up the largest ethnic group.

During the collapse of the Soviet Union, several efforts to break away from Georgia were made by the Abkhazians without success. In August 1990 the parliament of Abkhazia declared its independence. (The Georgian members of parliament were absent, and since that time Georgian members of the parliament of Abkhazia have been part of the Georgian parliament.) This was followed by an election process for the

regional parliament in 1991, strongly favouring the Abkhazian population. In July 1992, the constitution of the former Soviet Republic Abkhazia of 1925 was reinstalled by the Abkhazian parliament what meant the secession from Georgia. The ensuing fierce battles between Georgian and Abkhazian forces ended up with a defeated Georgian side and a mass exodus from Abkhazia by the Georgian population. Generally, it was assumed that Abkhazia received support from Russia. (A 1995 resolution on the accession to Russia was passed by the Abkhazian parliament.) As a consequence of these developments Georgia joined the CIS in 1993.

In 1992, for the first time, a mission of good services of the Secretary-General of the United Nations visited Georgia and Abkhazia which led to the creation of the post of the Special Representative of the United Nations Secretary-General for Georgia (currently Bodem from Germany). In 1993 UNOMIG (United Nations Observer Mission in Georgia - approx. 180 persons) was established as a peace keeping force. The current commander comes from Pakistan, his deputy from Austria. This is the first establishment of a peace-keeping force of the United Nations in a former Soviet republic. Besides the deputy commander, Austria also sends two military observers. Within the United Nations the group of the Friends of the Secretary-General of the United Nations (formerly the "Friends of Georgia"), including the USA, Germany, Great Britain, France and Russia has emerged. Since November 1993 peace negotiations have taken place in Geneva and other venues under the auspices of the United Nations, but so far without result. A conflict management course on NGO level for all conflicting parties in the South Caucasus, initiated under a voluntary programme by UNV, took place at the Austrian Peace University in Stadtschlaining. It included representatives from Abkhazia and Georgians expelled from Abkhazia. This course was followed by Georgian-Abkhazian dialogues at irregular intervals. Austria managed - during its OSCE presidency in 2000 when the South Caucasus and thus Georgia with its territorial conflicts was declared a priority - to organize a joint UN-OSCE-mission to work out a report on the situation in the region.

The essential provisions of the UNOMIG mandate are the following:

- monitoring of the ceasefire and troop disengagement agreement;
- maintenance of relations with the CIS peace keeping forces and monitoring them;
- controlling the troop withdrawal from the security zone;
- maintenance of relations with the conflicting parties;
- patrols in the Kodori valley (located in Abkhazia but under Georgian rule).

On 14 May 1994 a ceasefire and troop disengagement agreement was signed in Moscow under the chairmanship of the United Nations and Russia and with the participation of

the OSCE (dividing corridor 24 km wide). Since then a hitherto unprecedented form of cooperation between the CIS peace keeping forces (about 2.500 observers) and UNOMIG has started. Georgia is seeking to replace the CIS peace keeping forces and to have a stronger international involvement (including NATO) but is aware of the explosive character that a sudden withdrawal of troops would have. The above-mentioned agreement has been violated by both sides. The strongest clashes of recent times happened in spring 1998. Rebels of the Georgian IDPs have often to be called back by the Georgian central government.

The OSCE mission, set up in Georgia in 1992, and UNOMIG have agreed on a division of tasks to solve the Georgian conflicts. According to this, the OSCE was in charge predominantly of South-Ossetia and the United Nations of Abkhazia. In default of visible signs of progress in solving the Abkhazia conflict, Georgia is advocating a stronger OSCE involvement in solving the Abkhazia conflict. The OSCE mandate on Abkhazia generally envisages a liaison with the United Nations in conflict monitoring. Abkhazia has a negative attitude towards the OSCE, since relevant OSCE statements appeared to them as too pro-Georgian. In 1996 the United Nations High Commissioner for Human Rights together with the OSCE established a Human Rights Office in Abkhazia / Sukhumi.

Georgia called for the establishment of an OSCE office in Gali (border region between Georgia and Abkhazia) to solve refugee issues in that region. However, such an office could be opened only after the necessary security guarantees, which have so far not been given, are provided by the conflicting parties.

The major problems today are:

- the status issue: Georgia insists on territorial integrity - possibly an asymmetric federation: Abkhazia will also in the future seek independence or an accession to Russia or a very, very loose confederation
- the return of the displaced persons: Georgia calls for a return of all displaced persons (estimated 240,000). This would, however, lead to a change in the ethnic structure of Abkhazia - again to the detriment of the ethnic Abkhazians. The unilateral Abkhazian offer to return and integrate all the displaced persons has been rejected by the Georgian side due to the lack of the necessary security guarantees. Those displaced persons who until 1998 returned on their own initiative mostly to the Gali region, have been expelled again. The care of the displaced persons is a heavy burden on the Georgian budget, and they are increasingly becoming restless due to the lack of progress in finding a solution.

2) Nagorny-Karabakh

Nagorny-Karabakh - an enclave in Azerbaijan with a mostly Armenian population - had the status of an Autonomous Region in Azerbaijan during the Soviet era and is geographically not connected with neighbouring Armenia, though the distance to the border is sometimes only 10 km.

In the first ethnic conflict, which broke out during the collapse of the Soviet Union, Nagorny-Karabakh - the autonomy of which had partly been undermined by Azerbaijan - called for independence and accession to Armenia. Nagorny-Karabakh proclaimed its independence on 10 December 1991, which has never been recognized even by Armenia. In the course of armed clashes with the Azerbaijani army, the Nagorny-Karabakh troops conquered over 20% of the Azerbaijani territory - including regions beyond Nagorny-Karabakh, such as the Lachin corridor between Nagorny Karabakh and Armenia. This was achieved with the support of Armenia, which has never been officially confirmed. These regions are occupied up to the present day. As a consequence, Azerbaijan had to take in about 800,000 refugees and displaced persons. The defeat of Azerbaijan in this conflict led to a politically extremely instable situation and to frequent power changes in Azerbaijan, until Aliyev was elected President in summer 1993. As a result of the failures around Nagorny-Karabakh Azerbaijan entered the CIS in September 1993 and was - like Georgia in the case of Abkhazia - hopeful that Russia would increasingly favour Azerbaijan, since Russia had until recently supported Armenia - its most loyal ally in the South Caucasus - mainly by arms supplies. Since that time and also in parallel with the creation of GUUAM, an axis has evolved in the South Caucasus: Russia-Armenia-Iran on the one hand, (Ukraine)-Georgia-Azerbaijan-Turkey-(USA) on the other. Today we can however observe also a restrengthening of Azerbaijani-Russian relations.

In 1992 the so-called Minsk Conference was convened by the OSCE to help negotiate a political solution to the conflict. The Minsk Group, which emerged from this conference, includes Belarus, Germany, France, Italy, Russia, Sweden, Czechia, Finland, Turkey, the USA and the OSCE chairman-in-office and has tried hard to contribute to a peace agreement - however so far without result. Negotiations have taken place also in Austria. At present, the Minsk Group is under American, French and Russian co-chairmanship. In September 1994 a decision was taken to deploy the first ever OSCE peace keeping force in Nagorny-Karabakh (Austria was ready to provide an Alpine company) and to establish a High Level Planning Group in Vienna for the preparation of peace keeping operations. These forces have, however, so far not started their operation. In 1995 the post of a Personal Representative of the OSCE chairman

was created to assist - in close cooperation with the Minsk Group - not only technically in general aspects of a conflict settlement, such as the monitoring of the ceasefire, but also in preparing the deployment of peace keeping forces and in creating confidence building measures, by means of establishing direct contacts. The Personal Representative of the OSCE chairman, who is currently from Poland, has five field assistants (in the past some of them were sent by Austria), a Tbilisi-based office and residential offices in Baku, Yerevan and Stepanakert / Kandeli. Russia has held permanent negotiations in parallel to those by the Minsk Group and mediated the ceasefire in May 1994.

A proposal for a peace agreement by means of a step-by-step plan was adopted at the Lisbon OSCE summit. As a first step, this plan envisaged the withdrawal of Armenian troops from the occupied territories in Nagorny-Karabakh and as a next step the solution of the status issue of Nagorny-Karabakh. Armenia never accepted this plan and was therefore politically isolated by the international community. Moreover, an economic blockade was imposed on Armenia. When in February 1998 the Armenian President Ter Petrosyan, started to show sympathies for the plan, he had to resign and was succeeded by Robert Kocharian – the former "President" of Nagorny Karabakh and later Prime Minister of Armenia. A new proposal by the Minsk Group, based on the concept of a Common State, was positively seen by Armenia but rejected by Azerbaijan. For Azerbaijan, an equivalent status with Nagorny-Karabakh within one common state is unacceptable. After numerous direct contacts between the Armenian and the Azerbaijani Presidents in the first half of the year 1999, an immediate solution to the Nagorny-Karabakh conflict appeared to be in close sight. However, this new euphoria was stifled by the assassinations in the Armenian parliament in October 1999. A new impetus to the conflict resolution was given on occasion of the parallel accession of Armenia and Azerbaijan to the Council of Europe at the beginning of 2001, but has so far again not brought tangible result, although many observers do not exclude a final solution of the conflict to be elaborated still in the course of this year.

Essential elements of a peace agreement:

- withdrawal of the Nagorny-Karabakh troops from the occupied territories,
- legal status of Nagorny-Karabakh,
- international monitoring of the peace agreement,
- the future of the Lachin corridor with regard to international monitoring,
- return of displaced persons.

At present, the future status of Nakhichevan - an Autonomous Republic in Azerbaijan, mostly populated by Azerbaijanis but located in Armenia, without any geographic connection to Azerbaijan and the only direct border connecting Azerbaijan with Turkey

(about 12 km) - is seen in the context of a possible change of status and in connection or exchange of Nagorny-Karabakh with the Meghri corridor.

Azerbaijan has a rather negative view of the OSCE attempts at a solution in the Nagorny-Karabakh conflict and accuses the OSCE of failure since allegedly nothing has been done to preserve territorial integrity and much greater efforts have been concentrated on other matters. Signs of marginalisation - as a consequence of the developments in the Balkans have sometimes become apparent. Also the repeated postponing of the visit by the OSCE chairperson to the South Caucasus was regarded very negatively. The Austrian initiative to pay a visit to the region, before assuming the OSCE chairmanship, was seen very positively both by the Armenian and by the Azerbaijani sides. As mentioned above, the Nagorny Karabakh conflict was also a focus within the South Caucasian priority of the Austrian OSCE chairmanship.

3) South Ossetia / Zkhinvali region

South Ossetia is one of the three autonomous entities in Georgia - an Autonomous Region. It is located in the northeast of Georgia and borders on the Republic of North Ossetia (Alania) which is located on the other side of the Caucasus in Russia. The Ossetians are one of the few nationalities in the Caucasus of Iranian origin and therefore ethnically not related with the Georgians. Their language does not belong to the Caucasian group. The Ossetians had for long time controlled the only functioning border road on the Caucasus - the so-called Georgian military road. The capital of North-Ossetia is Vladikavkaz which means "He who rules the Caucasus".

In 1991, during the break-up of the Soviet Union, South Ossetia declared its independence. In a referendum held in 1992 over 90 percent of the South-Ossetian population voted for an accession to North Ossetia. This led to civil war which was brought under control through the deployment of peace keeping forces (formed of Russians, Georgians, North and South Ossetians) – with the signature of a respective agreement on June 24 in Sochi. Subsequently, a Common Control Commission (including the OSCE, UNHCR since 2000 the EU as observer) emerged.

In November 1992 an OSCE long-term mission was set up in Georgia to solve the South-Ossetian conflict. Its mandate comprises the following:

- contribution to facilitate a negotiated peace agreement;
- monitoring of the peace keeping forces as to OSCE conformity, participation in the Common Control Commission;

- working out of proposals for a common OSCE-UN-conference to find a final solution to the conflicts and the status issue.

In 1997 a branch office of the OSCE mission was opened in the capital of South Ossetia Zkhinvali. Austria sent twice special advisors to the Tbilisi-based mission to cover the South-Ossetian conflict (human rights, media).

This conflict seems much closer to a solution than the Abkhazia conflict. Talks on the highest level are being held between the Georgian and the South-Ossetian sides. The elections in South Ossetia held in spring 1999, which have never been internationally recognized, were not overdramatized by Georgia.

The working groups of the Common Control Commission, which deal with security and military issues, economic matters, refugees and displaced persons, are playing a major role in solving the day-to-day problems. A final settlement also depends on a solution of the much more complicated Abkhazian conflict since South Ossetia - as during Soviet times - will not be satisfied with a status inferior to Abkhazia within Georgia.

In 2000 during the Austrian OSCE chairmanship and for the first time ever, Georgian-South-Ossetian negotiations on an expert level took place abroad, in Baden near Vienna. These dealt, also for the first time, with the status issue. The charity organization, Hilfswerk Austria, is currently working on a TACIS project to reconstruct South Ossetia, which comprises projects in various regions both in Georgian and Ossetian populated villages of South Ossetia. The Austrian Peace University in Stadtschlaining convened a South-Caucasian conflict management seminar in 1997 in which representatives from South Ossetia also took part.

Along with these conflicts in the South Caucasus which have led to armed clashes other potential conflicts in the region, which have so far not been violent but contain latent conflict potential, have to be taken into account.

4) Ajaria:

Ajaria is one of the three autonomous entities within Georgia - an Autonomous Republic. The population is mainly Moslem and the creation of this autonomous entity was originally based on religion. To the present day, there have been no open conflicts (like those in Abkhazia or South Ossetia) with the central government in Tbilisi. Under "President" Abashidze, who by the way has shown aspirations to succeed Shevardnadze, break-away tendencies intensified, and Ajaria loosened itself to a greater extent from the Georgian rule, though the territorial integrity with Georgia has never

been questioned. The Ajarian leadership is very pro-Russian oriented. Russian troops, deployed on Ajaria's border with Turkey, were gradually replaced by Georgian troops, and should be replaced at least partly by Ajaria's own troops. In 1999 the Georgian central government granted Ajaria the status of an Autonomous Republic. This has to be seen in the context that the Georgian constitution, which had been worked out with the help of an Austrian constitution expert, deliberately did not regulate the status of territorial entities (term for autonomies), what was accepted by Ajaria in exchange for tax concession by the central government.

5) *Meshketia-Javakhetia:*

The regions of Meshketia and Javakhetia are located in Georgia. They are not autonomous entities but geographic names. Due to the ethnic structure in these regions (Armenians, deported Meshketian Turks, Georgians) tensions are likely to appear also in the future. On the occasion of Georgia's accession to the Council of Europe, Georgia was obliged *"to adopt a legal framework for the repatriation and integration of the Meshketian people -deported during the Soviet era - within two years, including the right to acquire Georgian citizenship, to consult the Council of Europe prior to the adoption of this regulation, to start the repatriation and integration process within three years after the accession to the Council of Europe and to accomplish the whole process within 12 years"*. Recent times have been marked by tensions associated with the Meshketian and the Armenian populations in Meshketia-Javakhetia. In March 1999 a meeting to regulate the Meshketian issue within the Council of Europe took place in Vienna.

The present-day region of Meshketia - Javakhetia is located in the southeast of Georgia on the Turkish-Armenian border. It had been part of the Osman Empire and subsequently belonged to Russia. The Russians called the local Moslem population Turks and settled Armenians from Anatolia into the region because of a general distrust towards Turks. In 1944 the local Turkic population of approximately 91,000 was deported to Central Asia on the pretext of collaboration. After deportations were terminated for other peoples in 1956, the Meshketians were, however, not entitled to return to their home country. When antimeshket pogroms started in the 1980s, particularly in the Ferghana Valley, some of the Meshketiens (an estimated 300 families) fled to Georgia but had to leave the country again under Gamsakhurdia. The ethnic group calls itself Meshketian Turks, whereas Georgia officially calls them Islamized Georgians. UNHCR estimates a total of some 220,000 Meshketians wishing to return to their homes.

The six districts of the region Meshketia - Javakhetia, with a total population of about 240,000, including 54 percent Georgians and 42 percent Armenians, have no common administrative entity. Javakhetia itself has a 95 percent Armenian population which has hardly any command of Georgian. The school textbooks are Armenian, the orientation of the population has always been pro-Armenian and never pro-Georgian. Compared with Georgia, the economic situation has been even poorer. The Armenian population opposes a return of the Meshketians, reflecting the traditionally bad ties between Armenia and Turkey.

Due to its geographic location, the region is strategically very important. One of the four Russian military bases in Georgia is located in Akhalkalaki (Javakhetia). In 2000, according to the final Istanbul OSCE-document, their closure was due to be negotiated. The local, mainly Armenian, population is opposing such a closure since this military base is practically the only source of income in the region, offering a kind of shelter. At present, there are also Armenian separatist movements which call for a federative Georgian state. The President of neighbouring Ajaria, who suggested annexing the region to Ajaria, is attempting to profit from his distance from the Georgian central government and the closeness to Russia as well as a certain economic prosperity in Ajaria. This corresponds with the Russian interest to encircle Georgia and to weaken its territorial integrity. On the other hand, Armenian circles view Abashidze with caution due to his (geographic) closeness with Turkey. Even though the region might not be of great (economic) importance, it plays an essential strategic role due to its geographic location and its ethnic structure, and what is more, almost all of the current political parameters of the South Caucasus can be found in this tiny region: the Russian influence, the differences between Russia and Turkey, reflecting the differences between Armenia and Turkey, the issue of Georgia's territorial integrity and the secession of territorial entities from the central government as well as the impact of economic problems in transition societies.

The most severe problems associated with the return of the Meshketians to Georgia are:

- the issue of citizenship: Georgia does not accept dual citizenship. In order to obtain Georgian citizenship, the former citizenship has to be given up, which might lead to statelessness over extended periods since the process of giving up one's citizenship and granting a new one can be very tiresome and costly;
- the issue of return: According to the official Georgian opinion, the Meshketians should return not only to Meshketia - Javakhetia but also to other regions of Georgia, so that there is no harmful effect on the (Armenian) ethnic structure. Negative reactions of the local population and ethnic clashes are expected;

- issue of resettling: Georgia prefers a non-compact resettling and the adoption of Georgian names;
- link of the repatriation of displaced persons with Abkhazia: Abkhazian displaced persons consider any (international) aid for Meshketians returning to Georgia as unjustified since they do not receive the same amount of aid.

6) *Chechen section on the Georgian-Russian border*

In the course of the Chechen conflict numerous problems arose in the Chechen section of the Georgian-Russian border in the winter of 1999 since Russia accused Georgia of supporting Chechnya with arms supplies and with granting accommodation / refuge to terrorists on the Georgian territory. On the request of Georgia, an OSCE border monitoring mission under Austrian leadership was set up during the Austrian OSCE chairmanship, which consists of three bases. The mandate of this mission includes the monitoring of the border section and the reporting of all movements over the border. To adequately guarantee the safety of the international observers of this mission, the EU has pledged to provide adequate material aid for Georgia.

III. Russian military bases

For a more precise illustration of the complex situation in the South Caucasus, the Russian military bases in the region also have to be mentioned.

Azerbaijan is the only country in the region that has no Russian military bases, except one radar station. Besides the bases in Armenia, which is Russia's closest ally in the region, four bases as well as border troops have been deployed in Georgia since its accession to the CIS in 1993. During the Istanbul OSCE summit in 1999, Russia was obliged under the CFE agreement to dissolve by 1 July 2001 two of the four military bases (Vaziani and Gudauta) and to find a modus to dissolve the other two bases (Batumi and Akhalkalaki) by the end of 2001. So far the troop withdrawal from Vaziani has been completed. In Gudauta, however, the whole process is growing more complicated since Gudauta is located in Abkhazia - as illustrated above. Russia advocates the transformation of the base into a training or recreation centre for the CIS peace keeping forces deployed in Abkhazia. Moreover, it has been observed that arms withdrawn from Georgia have been transferred to Russian bases in Armenia, what has led to a strong protest by Azerbaijan.

IV. North-Caucasus

This article deals with the conflicts and problems in the South Caucasus, without illustrating the problems in the North-Caucasus, which is part of Russia. However, both parts of the Caucasus with their erupting conflicts are closely connected with each other. That means that the frequently depicted mixture of critical issues in the south finds its continuation in many aspects in the north of the Caucasian mountain chain. As the most prominent problem of all, the Chechen issue has to be mentioned in this context. This has also had - apart from the problems arising in the Chechen section of the Georgian-Russian border in 1999 as described above - its impact on the Abkhazian conflict. Due to the ethnic relationship of the Abkhazian with the North-Caucasian peoples, it was Chechnya which supported Abkhazia in the beginning, whereas in the course of recent developments in the Russian-Chechen relationship Georgia has now tended to support Chechnya.

V. The impact of economic and social problems

It has to be taken into consideration that - along with the above-mentioned conflicts and the conflict potential due to ethnic and territorial problems - tremendous waves of unrest might be expected mainly due to purely economic and innerpolitical problems. Recent times have shown in Georgia, for example, that the population - additionally to the general disastrous economic and social situation - have had to live without electricity and hot water during 10 winters and have been therefore ready to go to the streets. The fact that - in parallel to these waves of unrest in Georgia - nationwide protests took place in Azerbaijan against rigging during the parliamentary elections of 5 November 2000, calling for the resignation of President Aliiev, may or may not be seen as a coincidence.

VI. Stability Pact for the Caucasus

In conclusion, a few comments to the proposal worked out by the Centre for European Political Studies in Brussels for a "Stability Plan for the Caucasus".

According to this proposal the EU, Russia and the USA should propose a framework for a solution of the regional conflicts, comprising the following items:

- solution and prevention of conflicts,
- building of a South-Caucasian community,
- regional OSCE security system.

These items can be supplemented at a later stage by the following:

- cooperation of the South Caucasus with the EU, Russia and the USA
- cooperation of the Black Sea regions, the Caucasus and the Caspi region
- investments into the oil and gas industries.

A Caucasus contact group could be set up to deal with the above-mentioned agenda and should comprise the three Caucasian states, which should in turn invite the immediate neighbours Turkey and Iran to cooperate. This would be under a three-step plan and would result in a "Group of the 8".

As far as the solution and prevention of conflicts is concerned, Europe should serve as a model. The abandoning of classic national states is advocated. The first priority should be attached to the solution of the Nagorny-Karabakh conflict, followed by the conflicts in Abkhazia (proposal of a federal constitution) and in South Ossetia, which should be integrated into Georgia but vested with self administration rights in various fields.

The South-Caucasian community should create a basis for normal economic cooperation, possibly a free trade zone, and in the long run have its own institutions such as a common ministerial council, a parliament and a parliament of NGOs.

The OSCE should be the controlling security organization and security guarantees have to be granted by the international community e.g. by international organizations like the United Nations and the OSCE as well as by individual states or groups of states, like the EU, USA and Russia. In this context special attention will be given to the transnational corridors, for example between Nagorny-Karabakh and Armenia or Nakhichevan and Azerbaijan.

As far as closer cooperation between the regions and the EU, the USA and Russia is concerned, along with the supply of direct development aid - especially also for Chechnya - projects in the tourist and transport industries (development of the "Georgian military road") and in the field of combatting crime should be worked out. Regional cooperation groupings, such as the existing Black Sea economic cooperation, should play a particularly important role.

Since all the above described possibilities of cooperation need huge financial investments, they are feasible only with the massive support of rich donors. To generate interest with such investors, fundamental and comprehensive political and economic reforms in the states of these regions will be necessary.

FROZEN CRISES IN THE CAUCASUS: CAN THE CIRCLE BE UNSQUARED?

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I. Introduction

Actual conflicts in the Caucasus area, with the possible exception of the Chechnya conflict are "frozen conflicts". This term implies immobilism and a deadlock in the peace settlement process, but not stability. Indeed, the Caucasian frozen conflicts pose a direct threat to regional stability, but on top of that, they have contributed to the tensions between the global powers in both bilateral and multilateral arenas. The architecture of the conflicts underline their regional character: Russian interests and presence in the area is the single most important common denominator. Russia's position in the Caucasus is seriously challenged by the Chechen conflict, which looms large over the entire security agenda. The international response to this threat to regional stability has been insufficient to this point. Peacekeeping missions including Russian (CIS) military presence have stabilized the military situation and provided for the possibility to establish an institutionalized peace process but today the peace process itself appears frozen, immobilized and ritualized. Soft or (in the case of the OSCE Mission to Chechnya: unrecognized) mandates, wrong priorities, flawed and uncoordinated approaches, insufficient liaison and communication flows between field presences and the center have contributed to frustrate the attempts at resolving the conflicts. Rampant corruption, for which the big international donors provide the raw material, prevents economic recovery and regional economic co-operation.

Although the claims and stands of the parties to the conflicts are incompatible, there is no objective reason why there should be no compromise solutions. The conflicts in the Caucasus, like other frozen conflicts, are not due to primordial ethnic or religious hatred or an absolute scarcity of resources that pits the warring groups in a merciless struggle for survival against each other. Rather, the breakup of the ancien regime made room for ruthless power seeking, nationalist frenzy and profiteering. The West watched helplessly, oscillating between anti-Communist instincts and stability interests. The lack of a consistent Russian strategy was certainly not helpful.

II. Interests of global players

US representatives make no bones about their objective to create an independent Southern belt in the soft Russian underbelly. The planned pipelines are political projects which are to provide the non-oil exporters in this belt with fuel and transport fees in order to make them less dependent on the Russian market. Russia's attention is of course, tuned on Chechnya. What are Russian fears and expectations?

Chechnya has turned out to be a major source of instability in the region. It is a black hole, a hotbed of illegal drug trafficking and arms trade. Hostage takings has been a major source of income for uncontrollable groups. But it was not Chechnya that was primarily on the Russian's mind, in spite of the oil wells (which accounted for 2% of total Russian production) the refineries for aviation kerosine, and the pipelines. The problem, rather, is Daghestan, which is the most important part of the Caspian coastline that makes Russia a littoral state of the Caspian Sea (or Lake) and thereby guarantees it a share of Caspian Oil. Here, the stakes and the frontlines are clear. Iran sides with Russia. Both countries would like to see the Caspian Sea treated as a lake, since their coastline is relatively short.

Russia is economically in deep trouble. It can and does survive on oil and gas exports which is basically the strategy the country has followed since Brezhnev. Russia's rich raw material resources are, paradoxically a factor that has hamstrung economic reforms. The Putin administration does not talk about economic or democratic reforms, but it basically reverts to familiar patterns of control and order. The country cannot rely on high oil prices for all times. In order to increase its leeway it has to increase its raw material basis, since the option of a import substitution strategy or self-sufficiency is closed. Daghestan has become a much more crucial link in the transportation network after Chechnya dropped out: A new pipeline bypassing Chechnya is under construction as well as a railway link between Astrakhan and Makhachkala.

Daghestan (2,137,600, Avars 540,000, Dargins 310,000, Kumyks 310,000) with its precarious ethnic balance is a hotbed of instability.

During the August 1999 invasion individual Chechens supported the invaders, the relationship between the local Chechen-Akkins (70,000) and the Makhachkala authorities became extremely tense. Around 60 municipalities located around Buynaksk declared their independence and Sharia rule.

Today, it is difficult to locate the political will to resolve the conflicts. Economic and political interest groups that profit from the crisis have amalgamated and maintain an unstable equilibrium. Western facilitation and mediation, despite of its initial

enthusiasm and good intentions, have become part of a setup that has hardened into carapace. Frustration with the status quo tempts political leaders to keep the military option open and to use refugees and IDPs as bargaining chip both for domestic purposes and as a means of pressure on adversaries and the international community. This creates a dangerous instability potential and a serious obstacle for democratization.

The term and the fact of frozen conflicts also implies that the parties to the conflict cannot defeat each other militarily (otherwise most conflicts would already be resolved). The no-peace-no war situation tempts to construct simple scenarios that end with military victory. The Russian strategy of blocking Islamic support for the Chechens or the opposite battle cry "Russians out, democracy in" as a pancea for the entire Caucasus may please cold warriors in Moscow or Tbilisi, respectively, but disregards existing realities.

III: Outlook:

Possible Changes in the Wake of the September Attacks

The relationship between the two major global players has obviously changed. Putin was the first Russian president who has mentioned Russian NATO membership as an option and the US has responded in kind, promising a re-evaluation of their position on the Chechen war. How much of that is sustainable, how much is rhetoric?

It is hard to change the principal stands of any administration. US foreign policy still lingered in cold war attitudes during the 90s (the breakup of Yugoslavia is a case in point), and there was a revival of sorts triggered by Russia's reassertive position under the second Yeltsin and the Putin governments. When it comes to Middle East and Caucasian areas, the Iranian hostage crisis has had a lasting impact. It had led to the US backing Saddam even after the Gulf war, when he crushed the Shiite and the Kurdish revolts, it contributed to lending support to the (Sunni) Talibans. It shaped the perception of an emerging Iranian-Russian axis. The post-September administrations will have to learn the lesson that the climax of all evil is neither Communism nor the Shia.

The situation benefits clearly Russian strategies to the extent there is such a thing at all in the Caucasus. It is still open, to what extent there will be a US-Iranian rapprochement. The first harbingers of such a development were Khatami's election and Russian, Malaysian and French initiatives that punctured the US embargo spelt out in the Iran and Lybia Sanctions Act in 1996 (most recently: Japans oilfield development treaty of June 2001). US firms put a lot of pressure on the Bush administration to ease the embargo. Bush responded by promising to shorten the embargo term to two years next

time (usually, 5 years). The US certainly will show themselves less concerned about Russian conduct in the Caucasus area in return for Russian support in the anti-terrorist war. US attention will then move away from the Caucasus (especially Georgia) and concentrate on Central Asia.

Accordingly, Putin will continue to play the Wahhabi card. He will continue to oppose NATO presence in the region, unless an extremely beneficial bargain can be struck (What's in for Russia?). Russia's divisive strategies are highly likely to be continued, especially if the prevailing feeling is that they have free hands. This means that the Abkhaz and the South Ossetian conflicts will not be resolved soon, let alone the Karabakh conflict.

The Chechen conflict cannot be solved militarily, only by genocide or by a new peace agreement. Russia will continue to put pressure on Tbilisi and Baku to deny shelter to Chechen fighters and it will seek US backing by producing evidence of the Chechen-Al Quaida link.

IV. The role and the conduct of the international community:

A new approach to peace-making in the Caucasus would entail customized strategy packages for each conflict, having in mind their regional character (Russian presence, oil and transport routes). The following elements should be prioritized:

- An unconditional commitment of all parties to a conflict to renounce of military options and strategies of economic devastation
- If possible, moratoria concerning the status issue (needless to say, the principle of territorial integrity must be upheld, as long as the affected states themselves advance this claim)
- Promotion of grass-roots economic co-operation, developing a sense of mutual dependency
- CBMs: (e.g. mixed reconciliation committees)
- Deployment of customized European military missions. Europe needs a military arm of its own which is tailored for crisis intervention. It should consist of a pool of national special forces, from which components can be selected for each individual crisis region. For example, an internationalization of the CIS peacekeeping force in Ossetia is acceptable for Russia and the South Ossetian, as long as no NATO members participate.
- Customized economic intervention (EU), implying a redefinition of success criteria, third-party independent monitoring, and follow-up controls.

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**PROMOTING INSTITUTIONAL RESPONSES TO THE CHALLENGES
IN THE CAUCASUS AND
IMPROVING CO-OPERATION BETWEEN THE OSCE, UN, EU AND THE CIS**

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