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ARMENIA AS A FACTOR OF BALANCE IN THE SOUTHERN CAUCASUS REGION

Introduction

The Southern Caucasus is a crucial region situated between Central Asia and Europe. Therefore, its political stability, security and economic development are important to the West. Rich in oil and gas, the region is certainly of great interest for the energy needs of the West. But on the other hand, ethnic and religious tensions and an increasingly impoverished and embittered population make that the South Caucasus requires sustained attention from world policymakers over the next several decades.

In recent years, three main priorities, namely a) the build-up of a democracy with market principles, b) enhancing regional stability and security and c) the exploitation of oil and gas resources have drawn the world's attention towards the region. The growing awareness of the rich hydro-carbon resources in conjuncture with regional and internal conflicts have dragged the United States into a more active role in the Southern Caucasus. This external support is badly needed as the countries of the South Caucasus have limited resources to devote to the domestic, border security and law enforcement reforms that must be undertaken. The region will also need additional assistance on military training to prevent terrorist attacks and to create functioning, professional armies.

The process of involving NATO in the South Caucasus is gradually gaining support albeit for different reasons. On the one hand, after the Prague summit in 2002 it was obvious that joining NATO is a high priority issue for Georgia and for Azerbaijan although NATO leaders frequently reiterate that none of the countries of the region would be invited for membership as the block as a whole is not ready yet. On the other hand, the Western and particularly the US attitude regarding its

involvement in the region changed considerably recently. The Deputy Commander of the US European Command, Gen Charles Wald, mentioned in an interview with the American Defense News magazine the possible re-examination of the deployment of American military bases as the US European Command is going to strengthen its presence in Africa and the Caspian region. Charles Wald listed countries where US military bases may be deployed and Azerbaijan is among them. According to the general the US army would patrol and safeguard a new oil pipeline in the region²⁶⁷ because "the main part of [Azerbaijani] oil and gas goes to Western Europe, which is why safeguarding this route dovetails with the interests of the USA. As for me, I think that this is a NATO mission". Furthermore, the US stands as the "godfather" of the Baku-Georgia-Ceyhan project, a main export pipeline, by allocating additional means for the set-up of special battalions to protect the pipeline.²⁶⁸

With regards to the settlement of the Nagorno-Karabakh conflict, much will depend on the newly elected Azeri president, Ilham Aliyev. A further prolongation of the conflict will be very disadvantageous for the region in many respects - affecting particularly the two parties involved.

The security situation in the region is in so far complicated as no two countries are member of the same politico-military block. Azerbaijan and Georgia refused to continue military partnership within the framework of the Commonwealth of Independent States (CIS), thus not being affiliated anymore with Russia. Armenia has membership in the Collective Security Treaty Organization, but its most important neighbour Iran is not member. On the other hand, we have already mentioned that none of the three countries has joined NATO, where Turkey has been participating since almost fifty years. This had however no influence on the development of bilateral and trilateral cooperation

²⁶⁷ According to several forecasts, Azerbaijan may have the world's fifth highest per capita income in several years due to the development of oil projects.

²⁶⁸ *USA gives 11m dollars to Georgia for Baku-Tbilisi-Ceyhan pipeline protection*, Kavkasia-Press news agency, 4 Jan 03, Tbilisi;
Georgia, US firm sign accord on Baku-Ceyhan security monitoring, Kavkasia-Press news agency, 3 Jan 03, Tbilisi.

within the region in trade, economy and even military. Turkey, Azerbaijan and Georgia announced a strategic partnership, which gives the latter two countries an insight of NATO and is also supposed to have economical and financial prospects even though the US tends not to attach importance to the active cooperation and developments between these countries in the military and military technical sphere.

Today, the Southern Caucasus faces serious internal threats, which might further endanger the regional security and stability. Dramatic changes in the political life due to recent elections, bringing to power revanchist groups and radical religious movements²⁶⁹, constitute a setback for the democratization process of the region. Despite considerable assistance from the Council of Europe and the OSCE providing an adequate framework for the organization of democratic elections, the election processes did not meet international standards due to a lack of political will of the authorities and the opposition to guarantee impartiality and transparency. The continuation of frozen conflicts in the region proved to be unfavorable to the completion of democratic transition, genuine regional cooperation and further European integration.²⁷⁰ Extremist forces are able to take advantage during radical changes in the internal political situation caused by events such as political assassinations, terrorist acts, changes in tax and fiscal policy and during serious social protests. These factors and challenges influence the political climate in Armenia by pushing the political leadership to further strengthen its own security.

²⁶⁹ Should those groups try to take profit from political changes and make attempts to seize power in an undemocratic manner special preventive measures taken by alliances and even superpowers are of highest importance. Despite the fact that this might be criticized as interference, this is a negligible risk compared to the problems that might arouse without foreign intervention.

²⁷⁰ Joint Declaration, Council of Europe-OSCE 13th High-level "2+2" Meeting, Chisinau, 5 November 2003, CoE Press Release.

The Role of the Security Sector in Stabilizing Armenia

After the collapse of the USSR the period of illusions of the newly independent states did not last for too long. The mid 90's appeared as the period of "disillusionment" when the actual situation and potential perspectives were realistically evaluated. In Armenia, this period coincided with the truce in the Nagorno-Karabakh conflict which gave the government the opportunity to assess its geopolitical position and future role in the region more pragmatically. It soon seemed that the most prospective cooperation area would be the military and the military-industrial areas, being a more or less advanced and well operating structure inherited from the Soviet era that did not require large financial or human investment.

After the collapse of the Soviet Union the political and military leadership of Armenia faced new problems of different character and scope. A sustained development of the security sector and of a security policy depended upon the settlement of these problems. As the armed forces were seen as an essential means to ensure security and stability much effort was given for professional training by a well experienced and dedicated military leadership.

As the truce with Azerbaijan was fragile and the reopening of hostilities seemed possible, pragmatism was much needed. Thus, the existing Collective Security Treaty agreements (signed 1992) were reinforced, new ways of integration with NIS leaders were sought as well as cooperation with NATO member-states. In June 2003 NATO military training exercises were held in Armenia and for the first time ever Russia participated. Although certain political circles in Russia deliberately ignore Armenia as a factor of political and military stability and balance in the region, a fact particularly obvious during the financial and economical negotiations between Russia and Armenia, high-ranking Russian military staff frequently reiterates that there are no alternatives to the politico-military perspectives of the CIS, particularly for Armenia.

Some progress has been achieved since the early 1990s but further the development of modern strategic and political measures is much needed.

A new policy must allow Armenia to meet the new challenges and cope with the forces that threaten its stability without endangering the fragile balance of power in the region.

Enhancing Stability through Economic Development

The multinational oil companies which are currently exploring and developing petroleum resources in the Southern Caucasus might play a significant and decisive role by involving all concerned players of the region and by further integrating the US. Stepping into a vacuum left by a weakened Russia, multinationals can bolster stability, security and prosperity. Although the potential profits of the natural resources beckon for quick exploitation and transport to the world markets the oil companies involved will only fully profit through a balanced policy coordinated with Washington.

Ethnic Clashes as an Obstacle to Development

After the collapse of the Soviet Union in December of 1991, the transformation of the former soviet republics into independent states produced three countries in the region of Transcaucasia (South Caucasus): Azerbaijan, Georgia and Armenia. Over the past years, the three countries have experienced substantial political and economic turmoil. Indeed, from 1988 to May of 1994 Azerbaijanis and Armenians fought each other over the still unsettled fate of Nagorno-Karabakh. Within this same period Georgia also experienced moments of civil war and de facto secession of the autonomous republics of Abkhazia and South Ossetia. Further north, the Russian Federation experienced severe turmoil and civil war, most notably in the secessionist republic of Chechnya.

In order to understand better the current context of ethnic clashes in the Southern Caucasus, one must take a step backwards in history. For the early Bolshevik leaders, the decision-making process surrounding the national and administrative division of the region was certainly very complicated. But in retrospect, one now knows for sure that they acted blatantly and deliberately irresponsibly, wreaking havoc with the nations

residing in Transcaucasia by inserting into the newly constituted Soviet republics of the area five "autonomous districts" (most of them created from 1921 to 1925). The Caucasian Bureau of the Russian Communist Party eventually adopted a fatal political decision, when in the early 1920s it attached the predominantly Armenian-populated Nagorno-Karabakh territory to Soviet Azerbaijan. Shortly thereafter, it repeated its action by attaching ethnically distinct Abkhazia to Georgia. These two short-sighted moves laid the perilous foundation for the Stalinist practice of what could be called the *divide et impera* rule (divide and reign). This is to say, by displacing entire populations and creating inner-ethnic tensions the communist rulers wanted to avoid the build-up of a unified, strong opposition. The Soviet regime pursued the same inflammable policy throughout the course of its history, which spanned over seventy years.²⁷¹

Russia's Influence over the Former Soviet South (FSS)

During the post cold war period, Moscow has attempted to spread its influence in its so-called "near abroad" via the framework it established under Boris Yeltsin as the Commonwealth of Independent States (CIS). As Russia neither had the resources nor the strong will to fashion a truly integrated bloc, its attempt at organizing the successor states to its liking have been ignored by the majority of the newly independent states²⁷². There is no consensus on how far reconciliation and rapprochement in the region should go and thus multilateral initiatives will hardly be possible, let alone successful. In specific domains, such as those pertaining to economics, trade, communication, society, education or politics, the extent of cooperation has been quite modest. It is obvious that Russia, having lost its former levers of control, is at present utilizing and exploiting whatever is left of its military legacy. It is doing so through the military bases in Armenia, whose existence further

²⁷¹ Nagorno Karabakh, A White Paper, The Armenian Center for National and International Studies, Yerevan, Armenia. The publication sponsored by the Armenian Assembly of America, Washington, D.C. Second Edition, March 1997

²⁷² Those states are regrouped in the NIS forums which now serve to outline the current attitudes prevalent among the elite in both Russia and the states of the Former Soviet South (FSS).

destabilize the already volatile Southern Caucasus. It is thus in this context that the needs of the Southern Caucasus states are to be assessed. A rather complex, but nonetheless haphazard interaction has evolved which entails bilateral, trilateral and other arrangements that are not in the CIS' competence.

While it seems obvious that in the foreseeable future the CIS will be unable to develop into an amalgamated bloc of regional states, Russia and the CIS struggle nonetheless to keep some influence in the FSS as one of the world's greatest oil rushes has seized the region.²⁷³ The oil boom has also attracted the United States and its international oil companies, which are advised by former and current high-ranking U.S. government officials. They are collaboration to effect policy changes seen as necessary for giving U.S. companies unparalleled dominance in the Caspian basin.

The Role of Multinational Oil Companies

The engagement of pre-eminent advisers and politicians resulted in an intensified lobbying and public relations campaign in Washington. US oil companies, desirous of Azerbaijani hydrocarbon resources, hoped to get the U.S. government to ease blockade-related restrictions of US aid to Baku. At the same time, they request the government to provide the security of government-backed loans and financial assistance. These would facilitate the exploitation of oil fields believed to contain around 200 billion barrels, more oil than any other region in the world outside the Persian Gulf.

In order to understand this lobbying, let's have a brief look back. In 1992, the US foreign policy was codified in the Freedom Support Act (FSA)²⁷⁴ and its Section 907²⁷⁵, the piece of legislation that directed U.S.

²⁷³ An estimated \$4 trillion patch of petroleum resources is located in the Caspian Sea basin. For further information see: Lenczowski, George (1997). 'The Caspian Oil and Gas Basin: A New Source of Wealth?' *Middle East Policy*, Vol. V,1, January.

²⁷⁴ For a press release see: www.fas.org/spp/starwars/offdocs/b920401.htm

aid into the successor states of the Soviet Union. Obstructive to the exploitation of the natural resources of the region, the Clinton administration agreed with the message promoted by Amoco, Pennzoil, Mobil and Chevron and the possibility of ending the ban of US Government aid to Azerbaijan was made public. After the tragic events of 11 September 2001, the US Senate discussed the lifting of the provisions of Section 907 of the FSA, which had excluded Azerbaijan from financial support by the US Government²⁷⁶. Political observers linked this action to Azerbaijan's contribution to the US led struggle against terrorism. This change naturally worried Armenia who has enjoyed favorable US-Armenian relations since the collapse of the Soviet Union, reinforced by the adoption of Section 907 of the FSA. Thus, in the near future, the U.S. intents must be made clear and it is hoped that the new resources gained by Azerbaijan would not be used to prevent the peaceful settlement in the Nagorno-Karabakh conflict.

At the same time, the United States is increasingly cooperating with Russia in the diplomatic realm in order to settle the Nagorno-Karabakh dispute (within the OSCE's "Minsk Group"), an act that put additional pressure on Armenia. Furthermore, a State Department report of April 1997 noted that "the Caspian region could become the most important new player on the world oil markets over the next decades. The United States has critical foreign policy interests at stake such as the increase and diversification of world energy supplies, the independence and sovereignty of the NIS and isolation of nearby Iran." If the administration and the multinationals are one-sidedly concentrated on

²⁷⁵ "United States Assistance under this or any other act (other than assistance under Title V of this act) may not be provided to the government of Azerbaijan until the President determines and so reports to Congress, that the government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensives uses of force against Armenia and Nagorno-Karabakh." (Section 097 of the Freedom support Act, adopted by Congress in 1992 with the support of the Bush Administration as expressed by current Deputy Secretary of State Richard Armitage on June 10, 1992).

²⁷⁶ Armenian Assembly of America (AAA). 'Corporations and Major Jewish Organizations Ask Congress to Lift Section 907. Former National Security Advisers Also Seek Repeal'. Press Release, 26 Oct 2001. www.aaainc.org/press/archive01/10-26-01.htm, accessed on 23 December 2003.

potential oil receipts, their policy risks being self-defeating. A balanced policy vis-à-vis the Southern Caucasus states must be pursued in order to reinforce the prospects of peace, stability and prosperity, needed to access the oil resources. Suffice it to say that missteps might produce a political and economic chaos unprecedented in the Southern Caucasus.

Achieving a relatively equal share of Caspian oil revenues for all actors in the region - Azerbaijan, Georgia, Armenia, Russia, Turkey, and Iran - should be an essential goal of US foreign policy. Just as the US has guaranteed stability by providing aid to Israel and Egypt and by mediating between Turkey and Greece, it can and should strive to do so in the Southern Caucasus. If the so-called "Great Game" for petroleum resources in the Caspian basin is to be played wisely, there should not be defeated players. In the long run, it is in the multinationals' and the US government's interest that all actors involved benefit from the natural resources.

Strong Concerns

It seems that the US currently is on this track. As former Deputy Secretary of State Strobe Talbott said: "We want to see all responsible players in the Caucasus and Central Asia to be winners."²⁷⁷ Nevertheless, the administration is under great pressure from all sides, even from those who hold no financial stake in the matter, to move full steam ahead in supporting US multinationals' access in the Caspian Sea region. These risks producing grave repercussions if the US government and the multinationals do not give more reflection to the security dynamics in the region, no matter how well intended the main actors are.

While Armenia on the one hand strives to support the transport of oil and gas across its territory, it is also strongly concerned about the way Azerbaijan will use the receipts from its massive oil deposits. Armenia possesses few natural resources and has generated little interest among international businessmen while Western oil companies have flocked to

²⁷⁷ Quoted in Jofi, Joseph (1999). *Pipeline Democracy: The Clinton Administration's Fight for Baku-Ceyhan*. Woodrow Wilson School of Public and International Affairs, Case Study, January.

Baku with contracts worth of billions of dollars. Armenia understandably fears the rise of an excessively wealthy neighbor emboldened by Western interest in its natural resources and has consequently, adopted an ultra-vigilant stance on Azerbaijani rearmament stemming from oil sales.

In order to illustrate these worries, we shall give an overview of the major deals concluded. Beginning with the "contract of the century" proposed by BP-Amoco and signed in Azerbaijan in September 1994; Baku has concluded more than 20 major agreements, creating consortiums with international oil companies that involve more than \$50 billion in projected investments²⁷⁸. Virtually assuring the bypass of Armenia as a transit state for Caspian petroleum resources, Azerbaijan and an international consortium of mostly western oil companies unveiled plans in 1995 to pursue a two-route strategy (to the north and to the west) for the shipping of oil to the world markets. Hence, it is apparent that Armenia is excluded from the lucrative transport (or transit) of energy to the west.

The masterpiece of the various ambitious projects is certainly the Baku-Tbilissi-Ceyhan (BTC) main pipeline. This exorbitantly priced pipeline project was developed to transport the crude oil produced in Azerbaijan via Georgia to the sea terminal of Ceyhan in Turkey, from where it could be exported to the international markets. The project negotiations started in 1997-98 and a series of protocols and declarations have been signed in order to define the purposes and commitments. The construction of the pipeline of a total length of 1,750 km will cost \$2.9 billion and should be finished by 2005. It is expected that the annual quantity transported would amount to 50 million tons. The exploitation period of the BTC was designed to be 40 years, but upon the demand of the shareholders it can twice be prolonged for 10 years. For Turkey alone it is expected that the annual benefit will amount to \$200-300 million.

The former Turkish, Azeri and Georgian presidents Ahmet Necdet Sezer, Heydar Aliyev and Edward Shevardnadze spoke of a dream

²⁷⁸ Oil consortia in Azerbaijan, An updated breakdown of all international oil consortia working in Azerbaijan. Reuters English News Service, 06/13/2000.

becoming reality when they announced the project in front of energy ministers and numerous invitees taking part in the ceremony. Azerbaijan's president stated that those who characterized BTC as the "project of the century" were right. Aliyev also noted that the implementation of this project was the result of a close cooperation between the USA, Turkey, Azerbaijan and Georgia. The US Secretary of Energy, Spencer Abraham, started his speech with an address of US President George W. Bush. The US President congratulated the three presidents, expressed his satisfaction about the involvement of two American companies in the project and was confident that BTC would help to strengthen the energy security in the world and assure the development and stability in the region.

For Armenia, this development was a harsh disappointment, as Washington has given serious thought in the mid-1990s to the idea of constructing a main export pipeline from Azerbaijan to the Turkish Mediterranean port of Ceyhan via Armenia. Such a pipeline might have contributed to the resolution of the Nagorno-Karabakh dispute by prompting the warring parties to settle their differences and jointly realize the benefits of oil exports. The trans-Armenian route would also be the most reliable, direct and cost-effective one. It has been estimated that a pipeline from Baku to Ceyhan over Armenian territory would save approximately \$600 million, compared to the currently proposed route. With the former "peace pipeline" now a dead letter, Armenia has effectively been sidelined in the development and export of Caspian Sea resources. Moreover, while Azerbaijan stands to receive vast economic and political benefits from its crude oil resources (as well as Georgia as a transit state), Armenia will gain nothing. But, as Zeyno Baran puts it: "Continued engagement in the East-West pipelines is essential. The single most important positive development in the Caucasus region is the investment in the energy sector, ranging from investment in oil fields to transportation of Azeri oil via the Baku-Supsa oil pipeline as well as the proposed BTC and Shah Deniz pipelines. Although Armenia so far has not benefited from these pipeline projects, a spur of a gas pipeline may eventually go to Armenia. To help the Caucasus region develop

economically and to secure their independence, U.S. support for the East-West pipelines must remain in place.”²⁷⁹

This is in line with a declaration submitted to President George W. Bush by the leader of a congressional delegation, Congressman Joseph Crowley, expressing concerns over the National Energy Policy Development Group’s recommendation to support the Baku-Ceyhan pipeline. "Exclusion of one country in regional projects only fosters instability. The United States must make it clear that Armenia be included in regional and trans-regional economic plans and projects. Without east-west transportation and commercial corridors, Armenia is isolated from the economies of the west. The United States must not acquiesce to Azerbaijan's demands to exclude Armenia from all east-west commercial corridors and energy routes. If the Caucasus region is to move forward, we must ensure that all countries move forward together at the same time. Choosing winners and losers in the Caucasus will not promote regional stability, economic integration and peace.”²⁸⁰

Conclusions

In sum, the emerging security environment in the Southern Caucasus is not favorably for Armenia. An increasingly rich and diplomatically stiffened Azerbaijan might use its riches to challenge an isolated Armenia. Baku makes no secret of its plans to use oil revenues and growing military-technical cooperation with Turkey and the United States to rebuild its military forces. A development that greatly alarms Armenia. "There is no issue of greater importance than ensuring the long-run prosperity and stability of resource-rich countries by developing ways to use these resources and the wealth they generate

²⁷⁹ Baran, Zeyno (2000). ‘The Caucasus: Ten Years after Independence’. *The Washington Quarterly*. Washington DC: The Center for Strategic and International Studies and the Massachusetts Institute of Technology, vol. 25,1, pp.221-234.

²⁸⁰ Office of Congressman Joseph Crowley (NY-07), 25 Jul 2001, Contact: Joshua Straka, Communications Director, 312 Cannon H.O.B. Washington, DC 20515, Tel: 202-225-3965, Email: joshua.straka@mail.house.gov.

well," Joseph E. Stiglitz, Nobel Prize winner in economics, writes in his foreword to the report *Caspian Oil Windfalls: Who Will Benefit?*²⁸¹

It is to be hoped that natural resources are used as a means of cooperation and stabilization among nations instead of confrontation and bloodshed. So Western states and multinational energy companies are currently playing a determining role in furthering Western foreign policy objectives of stability and intraregional cooperation.

The Trans Caucasian region enjoys sovereignty, but still suffers from an incomplete transition process and is in dire need of security and peace. These and the development of much-needed democratic principles and self-governance capacities for are essential for the stabilization of the volatile Southern Caucasus societies.

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²⁸¹ The report was written by Svetlana Tsalik, director of the [Caspian Revenue Watch](#), a program of the Open Society Institute's Central Eurasia Project. The report, *Caspian Oil Windfalls: Who Will Benefit?* urges foreign oil companies, their home governments, and international financial institutions to promote good governance and democracy in Azerbaijan and Kazakhstan to ensure that petroleum revenues generate social prosperity and stable governments.