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# **The Future of the Caucasus after the Second Chechen War**

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## **A Short Introduction to the Chechen Problem**

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### Abstract

*The problems surrounding the Chechen conflict are indeed many and difficult to tackle. This paper aims at unveiling some of the mysteries covering the issue of so-called “Islamic fundamentalism” in Chechnya. A comparison of the native Sufi branch of Islam and the imported Wahhaby ideology is made, in order to discover the contradictions and the conflicts that the spreading of the latter inflicted in the Chechen society. Furthermore, the paper investigates the main challenges President Aslan Maskhadov was facing at the beginning of his mandate, and the way he managed to cope with them. The paper does not attempt to cover all the aspects of the Chechen problem; nevertheless, a quick enumeration of other factors influencing the developments in Chechnya in the past three years is made.*

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## **1. Introduction**

To address the issues of stability in North Caucasus in general and in Chechnya in particular is a difficult task. The factors that have contributed to the start of the first and of the second armed conflicts in Chechnya are indeed many. History, politics, economy, traditions, religion, all of them contributed to a certain extent to the launch of what began as an anti-terrorist operation and became a full scale armed conflict. The narrow framework of this presentation does not allow for an exhaustive analysis of the Russian-Chechen relations and of the permanent tensions that existed there during the known history of that part of North Caucasus.

For this reason, the analysis will focus on the results of the first conflict, on the state of the Chechen nation between the two armed conflicts, and on the situation in Chechnya shortly before the attack on Daghestan in August 1999.

## **2. A little bit of History**

The Chechen struggle for independence was, during the last two centuries, mostly a battle against the Russian conquest and not an attempt to create a state of their own in a modern sense. The religious component was of fundamental importance in the open battles and the organised resistance movement. The norms of the so-called *tarikats* (which means 'path' in Arabic), a central concept in the Sufi branch of Islam, were of utmost importance for the survival of the Chechen traditions and lifestyle during the last two centuries. Sheik Mansur, Imam Shamil, Kunta-Hadji are only three examples of religious leaders who inspired resistance movements that would be remembered as long wars in North Caucasus. The Sufi tradition was the main piece of the Chechen survival tool kit.

What distinguished over the ages the Chechens from the other peoples and nationalities of North Caucasus was the lack of any form of aristocracy and vertical hierarchy. The Chechens were certainly not among the first to adopt Islam as the main religion. Still, the clan structure of the society and Islam are the key concepts for understanding the history of combined armed and non-violent resistance of the Chechens against the Russians.

The above-mentioned leaders are the best known organisers of the Chechen fight against the conquest from North. In between the great wars and after they ended, small-scale uprisings were common, even well into the Soviet era. Again, tradition and religion made the Chechens resist at any price the imposition of an alien system.

The culminating point in the struggle of the Soviet regime for a final solution of the "Chechen problem" was the deportation of the Chechen and the Ingush, alongside other peoples of the North Caucasus (Kalmyk, Karachai and Balkar). The action was designed to uproot the Chechens from their native land, thus solving the problem for good. The cost was high: one third of their population died during the trip to Kazakhstan and because of the harsh winter conditions there. The Sufi orders played again a leading role in the preservation of Chechen unity and in cultivating survival skills. Most Soviet specialists of anti-Islamic propaganda recognised that the attempted genocide through

deportation of over a million North Caucasian Muslims had a striking, unforeseen result: far from destroying the Sufi brotherhoods the deportations actually promoted their expansion. For the deported mountaineers the Sufi orders became a symbol of their nationhood in the lands to which they were exiled.

In 1990, after more than 30 years of peaceful existence, the Chechens raised their voice for independence once again. This time, the Chechen society showed clear signs of fragmentation. Until 1994, when the first Russian-Chechen conflict started, the official government, led by General Djohar Dudaev, co-existed in Chechnya with several opposition groups. They disputed among themselves the title of the most legitimate expression of the people's will. The clan structure of the Chechen society and the relative well being of the republic contributed to the emergence of different political currents. The independence rhetoric was used by the elites as a tool for winning the support of their electorate. Moscow tried to exploit this situation by sending troops in 1992, and later, in 1994 by arming a group of militants and sending them to conquer Grozny. The greatest mistake was committed. Now President Dudayev had the proof that Moscow was against Chechen independence, and he began to prepare the whole nation for war.

Perhaps the time has come for an attempt to find an explanation for the unity of the Chechens during the 1994-1996 armed conflict. Other examples of Chechen unity while fighting a war against a common enemy belong to history and are hardly quantifiable. On the contrary, the situation in 1994 was a first-hand example and a confirmation of the theories that had been written about the patterns of behaviour of the Chechens.

Being divided into clans (*teips*), the Chechen society retains a high degree of autonomy. The life of the *teips* is governed by *Adat* – a collection of customary laws, which are on the one hand quite liberal for a Muslim society, and on the other hand allow the clans to enjoy the highest levels of independence.

As mentioned before, a striking feature of the Chechen society is the historical absence of any forms of aristocracy. Besides the respect for the elders, the Chechens are par excellence deeply egalitarian. The form of democracy they have developed and preserved over the centuries is unique even among the peoples of the Caucasus. The decisions concerning the fate of the entire community or society were made by a Council of the Elders (*Akhsaks*), where the representative of each *teip* had equal rights. However, common rules applied for settling the disputes. One of them, the blood feud, still affects the entire Chechen society.

Social behaviour in time of peace (that is Dudayev's before the Russian-Chechen armed conflict and Maskhadov's after the signing of the Khasav-Yurt agreement) was totally different from the one prevailing at a time of conflict. Russian anthropologist Sergei Ariutinov writes about the Chechens:

“Chechnya was and is a society of military democracy. Chechnya never had any kings, emirs, princes, or barons. Unlike other Caucasian nations, there was never feudalism in Chechnya. Traditionally it was governed by a council of elders, on a basis of

consensus, but the Chechens retain the institution of military chief. In peacetime they recognise no sovereign authority and may be fragmented into a hundred rival clans. However, in time of danger, when faced with aggression, the rival clans unite and elect a military leader. This leader may be known to everyone as an unpleasant personality, but is elected nonetheless for being a good general. While the war is on, this leader is obeyed”.

That was the case for general Dudayev. As it could have been predicted, all internal disagreements and conflicts among the actors on the Chechen political scene disappeared instantly with the emergence of a foreign threat. Dudayev won a place that he might have never hoped to achieve while continuing to be the president of a self-proclaimed country with a state system inherited from the Soviet Union and a clear opposition based on both the teip principle and personal discontent of the former political and economic elite. As the Chechens were hardly familiar with the concept of nation-state, the foreign threat suited Dudayev perfectly in fulfilling his role of a unifying leader and defender of the fatherland. He gained weight as a politician and became a genuine national leader, with full support from an overwhelming majority of the population.

### **3. The outcome of the first Chechen-Russian conflict**

By the beginning of the conflict, Dudayev had a rather big group of well-trained and well equipped followers who played the role of a regular army. It was not the only one, though. Several armed groups, usually formed of members of the same teip, were involved in criminal activities. The hardware belonging to several Russian divisions, which had to be withdrawn from North Caucasus in accordance with international agreements, provided plenty of military equipment and ammunition for those groups. As the armed confrontation began, the gangs became the most suitable instruments for guerrilla warfare. The chiefs of those gangs became field commanders and, although they had to obey the orders of General Dudayev during military operations, they never lost their independence. The field commanders, according to the Chechen traditions and especially to the teip principle, were highly critical of anything that had little to do with the defence of their fatherland.

As Aslan Maskhadov became president in 1997, he did not seem to comprehend the burden he had inherited. Although neither he nor the international community seemed to realise that at that time, he had to solve three major problems:

- The problem of economic reconstruction of the Chechen Republic, which had been heavily damaged by the armed conflict.
- The problem of compensating his allies, the so-called field commanders, who were demanding satisfaction for their behaviour during the conflict and for the economic losses inflicted on their pre-war activities.
- The problems related to the spreading of Wahhabism, a branch of Islam that was as alien to the native Sufi dogma as it was dangerous for the population and for the general development of the situation in the Caucasus.

These problems would pre-determine the evolutions within the Chechen society during the following three years. Let us analyse them one by one and discover the connections between them.

#### a Economic reconstruction

In August 1996, when the Khasav-Yurt agreements were signed, the Chechens did not think of the times to come as a period of extreme poverty and restraint. They were negotiating all the agreements on the economic reconstruction and assistance from the position of winners, and they were demanding sometimes embarrassing amounts: 100 billion USD in war compensations and 100 USD per tone of crude transiting Chechnya.

According to the agreements signed in 1996-1997, the total amount of compensations and the mechanism for implementing the reconstruction of the economy were to be established at a later date. Those issues were never touched upon again. The only available figures on the economic assistance rendered by the Federal Government were those of the 1998 financial year. 800 million rubbles were paid to the Chechens: one third was the value of the electricity and gas supplied to Chechnya, another third pensions, salaries and compensations, and the last third was devoted to some small rehabilitation projects. For an economy ravaged by war, in which there was virtually no enterprise generating profits, this amount of money, so “generously” donated by the Russian Ministry of Finance, was nothing but salt rubbed into the wound, as they say in Russia. The demand for incomes, whatever their sources, was so huge, that those in power began resorting to the most dangerous and sometimes outrageous methods.

#### b Maskhadov and his opposition

The news about kidnappings and the overall worsening of the security situation in Chechnya overshadowed an event that had the most dramatic consequences for the development of the situation in the republic. In August 1998, Shamil Basayev, the Chechen acting prime-minister at that time, resigned and formed his own political group, the so-called extra-parliamentary opposition. But let us turn back to 1997, when Maskhadov was elected president and formed his government. The candidates for portfolios in his government were inevitably the most famous of the field commanders. They were demanding recognition of their merits and moral and material compensations for the losses the conflict inevitably caused to their illegal economic activities. Their participation in governance should have been a major source of income out of the war compensation, which Russia was supposed to pay. By the summer of 1998, after several meetings between Maskhadov and Chernomyrdin, the Russian Prime minister at that time, it became clear that Russia was not going to pay its bills. The Chechens did not even get the royalties for oil transit paid. An estimated 10 million tons at 8 USD per ton would have meant a considerable amount of money for the penniless republic. As a result of the war, all transit through Chechnya was deviated, the oil drilling and refining stopped, agriculture was in a state of ruin. Simply put, all former sources of income had vanished. Under these circumstances, it is no wonder that many of the “independence

heroes” turned to the most infamous income generating activities: kidnappings and promoting the Wahhabism in North Caucasus.

Let us not forget either the war-time and peace-time patterns of behaviour of the Chechens that Ariutunov so brilliantly defined some years ago. Although during the conflict Maskhadov was a good general and finished the war successfully, in the post-conflict period he became again one of the many. The field commanders felt he no longer had any authority, and they acted accordingly.

Basayev’s resignation followed the first open clash between the promoters of Wahhabism and the supporters of President Maskhadov, in August 1998, at Gudermes, the second largest city in Chechnya. In fact, Basayev deserted the camp of the president and became a spokesman for the ever stronger Wahhabyte followers. In time, he gathered around him many of the other field commanders and the position of the legitimate president became dangerously weak

### c Wahhabism and Sufism in Chechnya

The Wahhabi movement emerged during the nineteenth century in the Arabian Peninsula, although it had been founded two centuries earlier. The Wahhabi proselytes claim that they follow the purest Islam ever and stand against all the “novelties” introduced into Islam since the death of the Prophet. All Muslims who deviate from the original message of the Prophet are traitors who should be crushed by any means. The issue of religious purity came up when the founder and the namesake of the Wahhabi movement, Mohammed Ibn Abd Al-Wahhab began a public crusade against what he called heretic innovations. The greatest of these were the worship of tombs, prayers for the intercession of holy men and not directly to God himself, the worship of trees, rock formations, etc., minor pilgrimages, the belief in Mohammed as a religious power, and complex initiation rituals. Al-Wahhab declared those customs as expressions of polytheism, the greatest sin under Islam, and he began advocating a return to the Islam of the time of the Prophet Mohammed. Since those times, the pupils of Al-Wahhab have continued the line of their mentor.

Wahhabism found in Chechnya a fertile ground for spreading. Several Wahhabite followers originating from the Middle East joined the Chechen forces in their fight against Moscow and thus gained respect and prestige. The disastrous economic situation and the huge financial resources coming from abroad allowed them not only to launch a successful propaganda campaign but also to attract many followers, especially teenagers, to organise training camps for guerrilla warfare, as well as ideological schools, and at last to buy the loyalty of the otherwise non-religious field commanders.

Again, the limited space of this paper does not allow for a more comprehensive analysis of the interactions between the moderate Sufi Islam, deeply rooted in the collective consciousness of the Chechens and the extremely radical Wahhabi ideology. They are highly incompatible, as the Wahhabists condemn exactly what the Chechens treasure.

The Chechen Sufi variant relies on the presence of a living master; the Chechens have their saints; they practice strange rituals and undergo initiation processes.

The danger of the Wahhabi branch of Islam, as the Chechen experience shows, is that it is very proficient in penetrating those regions which are shaken by convulsions, where the living conditions are poor and where there is no strong ideological alternative, be it religious or secular. The Wahhabists can be probably envied for the efficiency they showed in the implementation of their goals in Chechnya. Having realised the inevitable failure of a blitz-krieg against the traditions of an entire people, emissaries from the Middle East fought this war with the hands of the Chechens. Their patience finally paid off: the gradual conquest of the bastions of the Chechen social and religious identity led to the most dangerous fragmentation of the society.

Coming back to President Maskhadov we can see now that none of the three problems he had to cope with was actually solved. On the contrary, during the 1997 – 1999 period Chechnya sank into a condition of extreme poverty, crime and religious extremism. The internal political situation evolved from jubilation and unity to acute vulnerability to blackmail with an aim to creating the Sharia state, a development which would have been inconceivable just two years before. Maskhadov acquired the reputation of a weak personality and of a prisoner of the almighty field-commanders. The international community watched in despair the crimes committed in Chechnya and demanded from Maskhadov the punishment of the guilty. But the greatest fear Maskhadov had, that of starting an intra-Chechen conflict, prevented him from taking decisive action.

#### **4. Questions for the future**

This presentation deliberately focused on the analysis of the Chechen society and neglected the other aspects. Much has been said and written about the motives behind the start of the new “conquest” of Chechnya. Even more has been said about the huge number of refugees and the at least debatable way of conducting what is said to be an “anti-terrorist operation”. At the end of this paper, some points that can contribute toward a better understanding of the possible outcome of the second Russian-Chechen armed conflict should be outlined

There are things that we know and things that we don’t know about the conflict in Chechnya. Some of the things that we know bring hope that the conflict may soon come to an end. Other things that we know make the prospect of a quick end rather fuzzy. Those things that we don’t know make the future of Chechnya even cloudier than it is now.

We know, for instance, that during this conflict the Russian high command showed signs of a calculated policy. Instead of fighting a war against the people, which they did in the

last conflict, the Russian Federal troops tried to make friends with the local population and managed to force the armed rebels out of most of the towns.

We know that the last conflict left in Chechnya a lot of arms and ammunition, and, what is more important, it enhanced the combat experience of a large number of Chechens.

We know that the designation “anti-terrorist” operation lost its meaning when President Maskhadov and his presidential guard joined Shamil Basayev, Khatab and the other promoters of Djihad in their fight against the federal troops.

We know that 200.000 refugees are kept at the borders of Chechnya. We know that most of the male population of combat age is not among them. What we don’t know is how many of them have joined or will join the rebels.

We know that Chechen society is at the moment very fragmented. On the one hand we have a majority of the population which is tired with hunger, insecurity and ceaseless Wahhabi propaganda. We also know that the presence of Russian troops may be a lesser evil. We have those who understand the dangers of the Wahhabism. Akhmad-Hadji Kadyrov, Mufti of Chechnya did not join President Maskhadov in his fight against the Federal troops. On the contrary, he arranged the take-over of Gudermes, the second largest city in Chechnya. He did it out of religious conviction, and not of brotherly love towards the Russian army. On the other hand we have the extremists. We don’t know how many they are. We know that there will be no reconciliation between them and the Federal troops. The scenario of a mountain guerrilla war of indefinite duration has already been much discussed.

We know the peace-time and war-time patterns of behaviour of the Chechens. What we also know is that this time the chronic combat fatigue of many of the Chechens has already reduced very much the chances of total war.

As you see, we know a lot of things. And still, I think that nobody is able to predict exactly the results of this conflict. Still we can see that the Chechen society will have to undergo a long and painful process of self-identification, even after the war is over.

A major lesson should be learned from the last five years of the Chechen experiment. Armed conflicts are evil by themselves. They do not solve much of the existing problems, they only add to them. But the post-conflict situations need a very minute and careful examination. They call for urgent actions. Improving the living conditions of the population and re-building the economy is not only an act of generosity. It is the guarantee that such phenomena as Wahhabism, Djihad, and extreme violence will no longer take place.

Perhaps it is high time for the international community to help. If the Russian economy is too weak to sustain the rebuilding of its 89-th region, the international community, and especially the European Union, should have enough courage to confront both the kidnapers in Chechnya and the sceptical moods of the government in Moscow. Perhaps



it is about time to ask why neither NGOs nor international organisations are present even in that part of Chechnya, which is under Russian control.

The 200.000 refugees are only one part of the problem. Many of them have probably better living condition in the refugee camps than they had at home. The key for tomorrow's stability in Chechnya and North Caucasus is to give people the understanding and the real knowledge that they have to loose something if they indulge in crime and religious extremism. Right now, they have very little to loose.

One aspect of conflict resolution and prevention that is almost always forgotten is the economy. There is a lot of talk about self-determination, human rights, extremism, ethnicity and much more. Still, there seems to be a general oblivion concerning the overwhelming role of the life conditions in the developments of a society. The Chechen society of the last three years is a sad but nevertheless worthy example of how extremism is getting the upper hand if there is no improvement in the war-damaged life of a people. Human beings may behave very strange if they are not able to see some light at the end of the tunnel. And in Chechnya the light seemed to be very remote.

# Georgia and Abkhazia: Proposals for a Constitutional Model<sup>1</sup>

Viacheslav Chirikba

## Abstract

*The constitutional arrangement between the Republic of Georgia and the de facto independent Republic of Abkhazia-Apsny remains one of the most intractable problems since the end of the Georgian-Abkhaz war of 1992-1993. In the present article I describe briefly the official views of the parties on ways of solving their political conflict, make an overview of some of the federal solutions as applied in various multi-ethnic states, and then present my own proposals for a new state model, which would encompass both Georgia and Abkhazia in the structure of a common state. This state model, which is based on a combination of federal and confederal principles, and which attempts to reconcile the widely divergent positions of the sides, could be used as a basis for discussion of the constitutional settlement of the conflict between the two republics. I would like to emphasise that the article was written before the adoption by Abkhazia of the “Act on State Independence” in October 1999, and it yet has to be seen what new approaches will be adopted by Abkhazia vis-à-vis its relations with Georgia, in particular, on the issue of the possible reunification of both States within a framework of a Common State structure.*

## 1. Introduction

The former Georgian SSR, a constituent republic of the Soviet Union, comprised, besides Georgia proper, also two Autonomous Republics (Abkhazia and Adjara) and one Autonomous Region (South Ossetia). According to the Soviet and Georgian Constitutions, the Autonomous Republics were considered as States. After the Georgian parliament under Zviad Gamsakhurdia unilaterally abrogated the South Ossetian autonomy in 1991, Georgia was left with two Autonomous Republics. The new Georgian leadership which came to power in January 1992 through a military coup against the politically inexperienced President Gamsakhurdia<sup>2</sup>, did not conceal its plans to transform the newly independent Georgia into a unitary Georgian nation-state void of any autonomies.<sup>3</sup> Georgia provisionally returned to the old Menshevik Constitution of 1921, where the autonomous status of Abkhazia was only mentioned but not specified.

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<sup>1</sup>This paper represents a shorter variant of the article published in: Bruno Coppieters, David Darchiashvili and Natella Akaba (eds.), *Federal Practice. Exploring Alternatives for Georgia and Abkhazia*, VUB University Press, Brussel, 2000.

<sup>2</sup>Allegedly with clandestine Russian military support, cf. Spartak Zhidkov, *Brosok maloj imperii*, Majkop, 1996, p. 142.

<sup>3</sup>As pointed out by Duursma, the Soviet law on secession (by which the author meant the Soviet law adopted on 3<sup>rd</sup> April 1990 “On the procedure of settlement of questions connected with the withdrawal of a union republic from the USSR”) allowed the Autonomous Republics and Autonomous Regions to decide independently whether or not to join the secession of the Union Republic in which they were situated. However, “In the end, this right could not be exercised by the autonomous republics of Abkhazia and Checheno-Ingushetia, or by the autonomous region of South Ossetia”, as only Union Republics were recognised by the international community as eligible to separate statehood. Cf. Jorri Duursma, *Fragmentation and the International Relations of Micro-States. Self-Determination and Statehood*, Cambridge, Cambridge University Press, 1996, p. 98.

Anticipating, not without grounds, that after the abrogation of the South Ossetian autonomy it would be Abkhazia's turn next, the Abkhaz leadership decided to return provisionally to the old Constitution of 1925, by which Abkhazia was united with Georgia on the basis of a Union Treaty, and in which its state sovereignty was enshrined.<sup>4</sup> At the same time, Abkhazia proposed a federal solution for Georgia, whereby Abkhazia would be a constituent republic within a Georgian federation with a considerable level of political autonomy. The draft of the federal treaty between Abkhazia and Georgia, worked out by Abkhaz lawyers, was published in the Abkhaz press and was sent to the Georgian leadership. The latter was, however, unwilling to discuss the federal solution and preferred to cut the Gordian knot by a blitz military strike. On 14 August 1992 the Georgian armed forces entered the territory of Abkhazia, which ignited a full-scale war.

At the end of September 1993 the Georgian forces were defeated and fled Abkhazia. The Georgian government lost control over this territory. Since that time Abkhazia has established itself as a *de facto* independent polity. The 1994 Constitution proclaims that Abkhazia is a sovereign democratic state; the 3<sup>rd</sup> October 1999 referendum held in Abkhazia approved the Constitution. In the "Act on State Independence of the Republic of Abkhazia" adopted on 12th October 1999 the Abkhazian leadership appealed to the UN, OSCE and all countries of the world to recognise the independent State "created by the people of Abkhazia on the basis of the right of nations to free self-determination."

In effect, Abkhazia meets all conditions required for its recognition as a State. It has a permanent population<sup>5</sup>, a defined territory, clearly defined and undisputed borders, an elected parliament and a stable government, which exercises an effective control and administration over the whole territory of the Abkhaz Republic. Abkhazia is sovereign and is not controlled by any foreign power. It has its own Constitution, flag, national anthem and other state symbols, as well as its own army. Despite its practical difficulties over contracting normal relations with other states, Abkhazia is capable of engaging in international relations, as enshrined in the Articles 47 (8) and 53 (4) of its Constitution.<sup>6</sup> It has a Foreign Ministry, which is engaged in international contacts, for example with Georgia, Russia, the UN and OSCE, as well as with other international organisations (the International Committee of the Red Cross, Medecins sans Frontieres, etc.). Abkhazia is a signatory to politically binding documents and agreements signed by the aforementioned countries and organisations. Besides, Abkhazia has independently concluded agreements

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<sup>4</sup>The Soviet Union was made up of 15 Union Republics, some of which (like Russia, or Georgia) comprised also lower-level autonomous political units called Autonomous Republics and (lower still) Autonomous Regions and Districts. Until 1931 Abkhazia formally had the same status as Georgia - both were Socialist Soviet Republics (SSR). In 1922 Abkhazia was united with the Georgian SSR effectively on confederal principles (as a "Treaty Union Republic"), and after 1931, on federal principles (as an "Autonomous Soviet Socialist Republic"). Chapter 2, Article 5 of the 1925 Constitution of the Abkhaz SSR stated: "The SSR Abkhazia is a sovereign state exercising state power on its territory on its own and independently from any other power. The sovereignty of the SSR Abkhazia, given its voluntary entrance into the ZSFSR [Transcaucasian Socialist Federative Soviet Republic] and the Union of SSR, - is limited only in the boundaries and on the matters designated in the Constitutions of these Unions. The citizens of the SSR Abkhazia, retaining their republican citizenship, are citizens of the ZSFSR and the Union of SSR [i.e. USSR]. The SSR Abkhazia reserves for itself a right of a free secession both from the ZSFSR and from the Union of SSR. The territory of the SSR Abkhazia cannot be changed without its consent".

<sup>5</sup>Though a large section of Abkhazia's population was displaced or fled the country as a result of the Georgian military intervention and the ensuing war, this "does not mean that the population of Abkhazia is not broadly determinable" (Driessen 1997: 6). A phased repatriation programme is envisaged under the "Quadripartite Agreement on Voluntary Return of Refugees and Displaced Persons" signed by the sides, Russia, the UN and OSCE on 4 April 1994 in Moscow.

<sup>6</sup>*Constitution of the Republic of Abkhazia (Apsny)*. Adopted by the 12-th session of the Supreme Council of the Republic of Abkhazia. 26 November 1994, Sukhum, 1994 (in Abkhaz and English), p. 35, 37.

with federated republics of the Russian Federation (with the Republic of Tatarstan, the Republic of Bashkortostan, the Kabardino-Balkar Republic, and the Republic of Adyghea), with the Transdnestr Republic and Gagauzia within the Republic of Moldova, which can be regarded as international treaties.

However, as much as Georgia failed to achieve its strategic aim to eliminate the Abkhazian state by using military force, the Abkhazian strategic goal - to achieve international recognition *de jure* of its factual independence - so far has not been attained either, thanks first of all to the Russian-Georgian blockade. Though the sides eventually came to the necessity of reaching a compromise and engaged in discussions of the possibilities and modalities of the reintegration of both polities within the framework of a common state structure, the widely divergent Georgian and Abkhaz positions on the political status of Abkhazia within this so far hypothetical structure have led the political negotiations on that crucial issue to an effective deadlock. While Georgia proposed a form of autonomy whereby Tbilisi would preserve its control over the crucial political and economic aspects of Abkhazia, Abkhazia was insisting on a non-hierarchical structure whereby both states will be politically equal subjects of a common union state.

One has to stress that both sides were forced by objective factors to defend their claims with moderation. The Georgian decision to federalise the country and the Abkhaz agreement to constitute a common state with Georgia were due to two major factors. Firstly, as said before, both sides have so far failed to achieve their strategic political goals (for Georgia: to annihilate Abkhaz statehood; for Abkhazia: to gain international recognition of its independence). Secondly, Russia, which insists on the federalisation of Georgia, at the same time prevents Abkhazia consolidating its *de facto* independence by having it subjected to a wholesale blockade. This renders the reunification of Georgia and Abkhazia under discussion rather “a marriage by convenience”, and in this respect it resembles the situation in Bosnia, where the state is being preserved exclusively by the pressure of external forces. Given such a context, it is reasonable to assert that the external factors are doomed to play a crucial role in the peace process. Under such circumstances, the role of *non-partisan* international mediators and guarantors is expected to be of the utmost importance<sup>7</sup>, at least in the first stages of the political rapprochement.

## **2. Constitutional Relations between the Two States: Georgian and Abkhaz Perspectives**

No Georgian political party or individual politician has so far expressed their readiness to envisage independent political status of Abkhazia as an option. They would all insist that Abkhazia is an integral and inseparable part of Georgia. Apart from this single position, however, opinions differ substantially, and no concerted Georgian view as to the status of Abkhazia exists. The opinions range from envisaging some degree of cultural autonomy for Abkhaz enclaves in Abkhazia to returning, in essence, to the political status of

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<sup>7</sup>Both the Georgian and Abkhaz sides often accuse Russia of assisting the other party, while it is obvious that Russia regards this conflict, and, consequently, its mediation in it, through the prism of its own political interests in the area. The other mediators (both the UN and OSCE, as well as the so-called “Friends of Georgia” diplomatic group) have so far demonstrated even less impartiality, strongly advocating, as firmly believed by the Abkhaz side, the interests of the Georgian side alone.

Abkhazia during Soviet times, i.e. to an autonomous State embedded into the Georgian State and controlled by the central Georgian government. The current Constitution of Georgia adopted in 1995 is still the Constitution of a unitary state which includes several autonomous units.

So far official Tbilisi remains rather vague on concrete details concerning the federal restructuring of Georgia, which is noted also by some Georgian authors. Zaal Anjaparidze justly remarks that “the Government of President Shevardnadze has so far failed to elaborate a clear and consistent policy on the Abkhaz issue”, and that it “has not yet elaborated any formal documents that would suggest [that] its desire to establish a federation is irreversible”.<sup>8</sup> Another Georgian author, Gia Tarkhan-Mouravi, points out that “the absence of a clearly formulated and widely supported strategy for the resolution of ethno-territorial conflicts is still a problem. The general unwillingness to decentralise power in Georgia proper <...> [is] causing increased suspicion among the negotiating partners as to the sincerity of the liberal and federalist statements made by the Georgian government”.<sup>9</sup>

The details of Shevardnadze’s plan of “asymmetrical federation” for Georgia have not yet been made public. One can, however, surmise that, given the Soviet background of the Georgian leader, the major ideas have been borrowed from the Soviet and current Russian models, which will probably not be enough to reconcile the Abkhaz position.<sup>10</sup> A return to the Soviet system of Autonomous Republics is criticised even by some Georgian authors as historically futile.<sup>11</sup>

#### a The Official Georgian Position

Abkhazia is an integral part of Georgia, which is recognised by the UN, OSCE and the international community. Abkhazia will have its own Autonomous Republic, constitution, anthem, flag and other state symbols, parliament and excessive cultural rights. At the same time, foreign policy and foreign economic relations, defence, police, state security, monetary system, federal budget, border control, the customs service, criminal, civil and legal-procedural laws, penitentiary system, energy, transport, communications, ecology, citizenship, etc. will remain in the responsibility of the central Georgian government (sometimes called “federal government”). Abkhazia will be able to conclude international agreements provided it notifies the central government. Georgia is prepared to pledge not to station Georgian troops in Abkhazia. This model largely coincides with the political status of the Abkhaz Autonomous Soviet Socialist Republic that existed between 1931 and 1991 under the Communist regime with some elements borrowed from the current Russian federal system.

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<sup>8</sup>Zaal Anjaparidze, ‘Negotiability versus Negotiations: Georgia and the Abkhaz Question’, in: *The Jamestown Foundation Prism. A Bi-Weekly On The Post-Soviet States*, Vol. IV, 1998, No. 6, part 4.

<sup>9</sup>Gia Tarkhan-Mouravi, ‘The Georgian-Abkhaz Conflict in a Regional Context’, in: Bruno Coppieters, Ghia Nodia, Yuri Anchabadze 1998: 101.

<sup>10</sup>According to Anjaparidze (op. cit., p. 3), Shevardnadze indeed referred to the Russian federal model with its sovereign Tatarstan Republic as a possible example for Georgia and Abkhazia.

<sup>11</sup>Ramaz Klimiashvili, *Kontseptsija “Dvukh Abkhazij”* [manuscript, without date], p. 2; *Conflict in Abkhazia and a Possible Way to its Settlement. The Republican Party of Georgia Proposes to the Georgians and Abkhaz a New Model of Cohabitation: Unity by Means of Division* (ms. in Russian) [1997], p. 3.

b The Official Abkhaz Position (before the adoption of the “Act on State Independence” of Abkhazia of 12 October 1999)

Abkhazia is a sovereign democratic state and a subject of international law. It has its own constitution, parliament, flag, anthem and other state symbols, as well as an army. At present Abkhazia and Georgia are not linked by any single legal document and are effectively independent of each other.<sup>12</sup> Georgia should give up its aggressive policy towards Abkhazia and compensate Abkhazia for all the destruction it inflicted during its military aggression. Abkhazia is ready to form a Federal Union with Georgia on a condition of political equality of both Georgia and Abkhazia within a common state structure. Abkhazia is not going to discuss its internal political status, as the latter has already been determined by the new Abkhaz Constitution. What it agrees to discuss are the forms and conditions of its reintegration with Georgia within the frameworks of a common Federal Union<sup>13</sup>, and other related issues. Abkhazia will enjoy full internal sovereignty and will be a subject of international law. It will have its own parliament, government, constitution, army and police force, flag, national anthem and other state symbols, its own civil and criminal codes, Constitutional Court, independent tax and cultural policy. Above these responsibilities, Abkhazia will delegate to the common governmental bodies such state responsibilities as foreign policy and foreign economic relations, border control and customs arrangements, international transport and communications system, energy system, ecology, protection of human rights and the rights of minorities, etc. The competences will, thus, fall into two categories: those in the joint responsibility of both Georgia and Abkhazia, and those in the exclusive jurisdiction of Abkhazia.

### **3. International Experiences**

While one looks, from the perspectives of the Georgian-Abkhaz conflict, at the ways in which other countries solve their own inter-ethnic disputes and the issues of self-determination, one tries naturally to identify the cases most closely pertaining to the Georgian-Abkhaz situation. Some analogues are rather easy to find, but the affinities are all too relative. For instance, the situation in Denmark and Finland resembles the Georgia/Abkhazia case insofar as these countries have peripherally situated compact ethnic/linguistic minority populations. In the case of Denmark it is the Faro Islands, populated by the Faroese, and Greenland, populated by the Inuit. In the case of Finland, it is the Åland Islands, populated by the Swedes. But Georgia is far from being ethnically so homogenous as Denmark or Finland: the ethnic Kartvelians<sup>14</sup> comprise some 70% of the population of the country. Besides, the difference between Abkhazia, on the one

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<sup>12</sup>Abkhaz politicians maintain that this fact has been indirectly acknowledged in the Moscow Agreement of 4 April 1994 signed by Georgia, Abkhazia, Russia, the UN and OSCE “Declaration on Measures for a Political Settlement of the Georgian/Abkhaz Conflict”, whose Article 8 reads: “A phased action programme will be worked out and proposals on the *reestablishment* of state- and legal relations will be elaborated” (italics added; cf. the English text in Hewitt 1999: 267). They point out that the need “to *reestablish* state- and legal relations” can mean only one thing: that such relations at present are non-existent.

<sup>13</sup>Murray Forsyth (*Union of States: the Theory and Practice of Confederation*, New York, Leicester University Press, 1981, p.10) defines “Federal Union” as a state structure representing an intermediary stage between normal intrastate relations and normal interstate relations.

<sup>14</sup>“Kartvelian(s)” is a common term used to designate the distantly related Georgians, Megrelians, Laz (who live mostly in Turkey) and Svans, who all possess their own distinct languages and cultures (only Megrelian and Laz are mutually intelligible), but are officially styled in Georgia as “Georgians”.

hand, and the Åland and Faro Islands, on the other hand, is that the latter represent ethnically homogenous autonomous territories outside the mainland territory, which is populated nearly exclusively by Danes or Finns, while Abkhazia itself is a multi-ethnic country, hosting, beside the indigenous Abkhazians, also a score of other nationalities: Georgians (or rather Kartvelians), Armenians, Russians, and Greeks.<sup>15</sup>

Certain similarities can also be found with the situation in the United Kingdom, where the main part of the country is populated by the English majority, whereas its peripheral provinces Wales, Scotland, Cornwall and Northern Ireland are mainly inhabited by Celtic minorities. The Northern Ireland situation with its Protestant (pro-British) majority and Catholic (pro-Eire) minority resembles pre-war Abkhazia with its Kartvelian (relative) majority population, which was orientated towards Tbilisi, and the native pro-independence Abkhaz minority, which strove to achieve its goals in alliance with the peoples of the North Caucasus. Until very recently drawing parallels with the Northern Ireland situation would have been justified only in the sad history of inter-communal violence and failed attempts for mediation. Now, after sweeping steps in the direction of a comprehensive peace settlement undertaken by moderate leaders of both communities and by Tony Blair's government, supported by American diplomatic mediation, the Northern Irish model undoubtedly deserves serious consideration from the point of view of the Georgian-Abkhaz peace settlement.

Rather close to the Georgia/Abkhazia case is the situation in Cyprus. In 1974 this island was partitioned, after a military conflict, between the Cypriot Greek community (78%) and the Cypriot Turkish minority (18%). While the Greek Cypriot government claims sovereignty over the entire island, the Turkish Cypriots argue that they represent one of the two constituent units in a future Cypriot (con)federation.<sup>16</sup> Though both sides in principle have expressed commitment to a federal solution to maintain the political unity of the island, the "Greeks see federation as a code word for reasserting Greek dominance in a state with a strong central government, while the Turks see federation as a means to obtain Turkish autonomy within a confederal-style polity".<sup>17</sup> In 1983 the Turkish Cypriots proclaimed the independent Turkish Republic of Northern Cyprus (recognised since then only by Turkey). Their leader Rauf Denktaş declared that the proclamation of a Turkish Cypriot state "will not hinder but facilitate the establishment of a genuine federation". In his view, the Greek and Turkish states should be linked to each other by a common government, and the overall federal arrangement would provide equal rights to Greek and Turkish Cypriots.<sup>18</sup> The UN proposal for the settlement in Cyprus, put forward by the Secretary-General, "envisions establishment of a 'bizonal and bi-communal federal republic' composed of two separate but 'politically equal' federated states, one

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<sup>15</sup>All these groups began settling in Abkhazia following the mass deportations of the Abkhazians to the Ottoman Empire by the Tsarist Russia in the middle of the 19th century (mainly after 1864). Only in parts of the marchland Gal region of Abkhazia (bordering with Megrelia) is the Megrelian population old. The population of the rest of Abkhazia before the expulsion was homogenous Abkhaz (cf. Lakoba 1993: 162-164, 190, 205-217; Hewitt, op. cit., pp. 83-88, 219-220).

<sup>16</sup>The Greek Cypriots argue that only their community, as an ethnic majority, is entitled to self-determination, whereas the Turkish Cypriots are an ethnic minority only and, therefore, could not exercise this right. On their part, the Turkish Cypriots maintain that they are not a minority but a people, who possess distinct traditions, language, religion and political aspirations, and that, as such, they are entitled to self-determination.

<sup>17</sup>Daniel J. Elazar, *Federal Systems of the World: A Handbook of Federal, Confederal and Autonomy Arrangements*, Essex, Longman Current Affairs, 1991, p. 80; cf. also Musgrave 1997: 222-229.

<sup>18</sup>Cf. Elazar, op. cit., p. 85.

controlled by Turkish Cypriots, the other by Greek Cypriots. Each state would have 'identical powers and functions', including 'responsibility for security, law and order and the administration of justice in its territory'. Although they constitute less than 20 percent of the population, Turkish Cypriots would be entitled to elect half of the members of the upper house of the legislature and would possess veto power over all central government legislation".<sup>19</sup> The apparent similarity with the Georgian/Abkhaz case is further demonstrated by the problem of refugees, and by the fact that UN peacekeepers and observers are monitoring the separation line dividing the island into two *de facto* independent states. Like Russia in the Georgian/Abkhaz case, Turkey too has insisted on a federalisation of Cyprus as a way to solve the intercommunal conflict.<sup>20</sup> The difference is that, unlike the unilaterally declared Turkish Republic of Northern Cyprus, Abkhazia had existed as an autonomous State even before the proclamation of its sovereignty.<sup>21</sup>

A close analogue to the Georgia/Abkhazia case can be found in Bosnia-Herzegovina. Like Georgia, Bosnia-Herzegovina is a multi-ethnic state, populated by Muslims (40%), Serbs (32%) and Croats (18%). Under the peace agreement reached in December 1995, Bosnia-Herzegovina was to become a sovereign federal state composed of two sub-state polities: the Muslim-Croat Federation and the Serb Republic. The central federal government is entitled to exclusive jurisdiction in the areas of foreign policy, foreign trade, customs policy, immigration, monetary policy, international and inter-entity transportation, air traffic control, and the financing of government operations and obligations. The two separate governments have jurisdiction over all other matters. Under the agreement, the three ethnic groups are entitled to maintain their own separate armies. "The agreement thus preserved the *de jure* sovereignty and territorial integrity of Bosnia-Herzegovina, but effectively created two separate *de facto* entities".<sup>22</sup> Some elements of the political settlement in Bosnia-Herzegovina are rather close to the constitutional arrangement of the Georgian-Abkhaz conflict I am proposing here and are, therefore, of certain interest.<sup>23</sup>

The situation in the Russian Federation resembles in some respects the Georgian/Abkhaz pattern: one has ethnic Russians, who constitute an overwhelming majority population of the country, and republics, populated by indigenous ethnic minorities, some of whom are rather independence-minded. The Russian experiment of a multi-ethnic state built upon

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<sup>19</sup>David Wippman, 'Practical and Legal Constraints on Internal Power Sharing', in: David Wippman (ed.), *International Law and Ethnic Conflict*, Ithaca and London, Cornell University Press, 1998, p. 217.

<sup>20</sup>Cf. Musgrave, *op. cit.*, p. 227.

<sup>21</sup>Commenting upon conceptual similarities between the settlement proposals put forward for the Georgian-Abkhaz and Cyprus conflicts, as reflected in the "Declaration on Measures for a Political Settlement of the Georgian/Abkhaz Conflict" (S/1994/253) and "Set of Ideas on an Overall Framework Agreement on Cyprus" (S/24472), Wippman (*op. cit.*, p. 217) emphasises that each of these proposals "seeks to replace simple majority rule with various techniques of achieving political consensus among ethnic groups, at least on issues of vital importance to those groups that would otherwise feel threatened by straight majority rule".

<sup>22</sup>Musgrave, *op. cit.*, pp. 116-121.

<sup>23</sup>Recently the Georgian leader Shevardnadze has also been advocating the "Bosnian model" as a way to solve the problem of Abkhazia. It is necessary to emphasise here that what he, and other Georgian politicians, mean by applying the "Bosnian model" is not the concrete constitutional arrangement reached in Bosnia, but rather the "Bosnian-type" military coercion of Abkhazia in order to enforce it to capitulate to Tbilisi's demands. To his disappointment, Shevardnadze's appeals to usually sympathetic Western leaders to apply the "Bosnian model", in the way he understands it, in Abkhazia have not yielded any positive response. Quite obviously, the situations and conditions in wartime Bosnia and post-war Abkhazia are different. The enforcement to peace in Bosnia was used by NATO in order to stop the war and brutalities and to endorse the cease-fire, which eventually led to a political settlement acceptable to all the warring parties. By contrast, there have been no major hostilities in Abkhazia since 1993, the cease-fire is firmly in force, CIS peacekeepers and UN military observers are separating the former belligerents, and, moreover, both sides have been engaged already for several years in UN-led negotiations aimed at a peaceful settlement of the conflict.



democratic principles is still in the making, and it scores both significant successes, like the Tatarstan case, and dire setbacks, like the war in Chechnya. Though now the Georgian leadership is trying to settle its dispute with Abkhazia by imposing a Russian-type federal arrangement, the Russian model cannot be taken as a basis for such a settlement. Russia still preserves a high level of centralisation inherited from Soviet times. Its control over the component states is still quite substantial, whereas Abkhazia insists on decentralisation and full internal sovereignty within a common state with Georgia. Moreover, the Russian Federation, which is in essence a huge ethnic Russian state embedding different ethnically non-Russian republics in a variety of forms of dependency on the central Moscow government, represents an unstable state construct in a process of transition, whose final outcome nobody can predict. With ethnic republics (and some Russian provinces alike) striving to snatch ever more powers from the Kremlin, which has been weakened by permanent political and economical-financial crises, the Russian Federation is drifting towards a looser federation, or even a confederation. The unfortunate fate of the Soviet Union is still looming large before it as one of the worst and not entirely excluded scenarios, with some impatient individual republics like Chechnya breaking free in the first rank. However, some elements of the constitutional accommodation of “sovereign” republics within the political-economical structure of the Russian Federation may be of some interest for the Georgia/Abkhazia case.

Finally, the Belgian federal model, which represents a rationally built state system based on power sharing and self rule of politically equal federated units, deserves a special attention. The Belgian federated states are empowered by the Constitution to quite extensive internal and external competences, which is of considerable interest from the point of view of any constitutional settlement between Georgia and Abkhazia.

Though all aforementioned states seek to resolve the problem of relations with independence-minded communities in their own individual way, the common feature in all these cases is a significant limitation of the sovereignty of the central government on the territory of the autonomies, and the substitution of simple majority rule by various balancing regulations.

#### **4. Proposals on the Political Status of Abkhazia within a Common State with Georgia**

In practical terms, no country provides an ideal model for a possible constitutional arrangement between Abkhazia and Georgia, though many elements of constitutional regimes of different federal states can be of great use while designing the common Abkhaz-Georgian state. It is justifiable, therefore, to speak in terms of a new state model, which will not coincide with any of the presently existing models, and which will be based on a combination of confederal and federal principles.

Here I will not dwell upon the theoretical discussion of the differences between federal and confederal regimes. In general terms, confederation can be regarded as a form of federal alliance in the sense that it is based on a “treaty between states, and not on a

purely one-sided assertion of will”.<sup>24</sup> One might probably point out at least two major traits that underlie the difference between a federation and confederation. Firstly, it can be the degree of decentralisation of the decision-making, which is substantially higher in a confederation than in a federation. Secondly, the hierarchically structured federation, whereby the federal government exercises power over the lower-level political units, is opposed to a non-hierarchically organised confederation with several politically equitable centres of power, by virtue of which the central government is dependent on their consensus and collective will.

All previous Abkhaz proposals based on a union of Georgian and Abkhaz states have been repeatedly rejected by the Georgian leadership as unacceptable. However, one can argue that a union state encompassing both Georgia and Abkhazia as politically equitable federated republics of a common state can be the only reasonable alternative to the dead-locked political process. The model proposed below of the future state combines confederal principles in its internal structure with federal principles in what concerns its international political and legal status. This state model would be to a certain extent comparable with the status and legal capacity of such federal states, as, for example, Belgium or Bosnia-Herzegovina. According to one of the definitions of confederation, the member-states of a confederation will not lose their *external* and *internal* sovereignty after concluding a confederal alliance.<sup>25</sup> Contrary to this, the following proposal conceives the Abkhaz Republic, while exercising *full sovereignty in its internal affairs*, as exercising a *certain level of independence in its external affairs*, which in this respect will resemble a federal, rather than a confederal arrangement. *Within* the proposed state structure Abkhazia will act as a sovereign republic of the common state. *Externally*, on the international stage, Abkhazia will act as a component state of an aggregate state within the limits of its agreed international competences (which can be comparable, say, with the international status of Flanders in Belgium). This model can form a compromise between the Georgian insistence on the territorial integrity of the Republic of Georgia and the Abkhaz insistence on building up a non-hierarchical state structure whereby Abkhazia will be a self-governed sovereign republic within a common state with Georgia.

The model proposed below presents one of the possible solutions in terms of a constitutional settlement between the Republic of Georgia and the Republic of Abkhazia, without touching upon the problem of possible arrangements for South Ossetia and Adjara. In order not to embark on the sensitive issue of the name of the future state<sup>26</sup>, I

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<sup>24</sup>Cf. Forsyth, op. cit., p. 1. According to him (p. 7), “‘Federal Union’ - as the spectrum between interstate and intrastate relations - and ‘federal state’ - as the spectrum between federal union and the unitary state - would seem to be the two critical categories of federalism when it is differentiated in this way”. Elazar 1991: xv also regards confederation as a sub-type of federal arrangement. James Crawford (*The Creation of States in International Law*, Oxford: Clarendon Press, 1979, p. 292, fn 26) thinks that a better view of the distinction between confederation and federation is that in the former “the local units remain States in the general sense, having merely delegated certain competences to the central organs, whereas in a federation there is only one State in that sense, even if local units retain some degree of international competence”.

<sup>25</sup>Cf. Broms, Bengt, “States”, in: Mohammed Bedjaoui (ed.), *International Law. Achievements and Prospects*. Dordrecht/Boston/London, Martinus Nijhoff Publishers, 1991, p. 49.

<sup>26</sup>The name of the future common state might become a problem of a prime political significance for both parties. This is a particular problem, which does not exist in countries like Great Britain, Belgium, or Switzerland, whose names are different from those of the major population groups. It is quite probable that the name of the future state will not necessarily coincide with the current name of Georgia (“Republic of Georgia”). Such names as “The United Republic of Georgia” (proposed by Tim Potier (Tim Potier, *The “Potier” Proposals For A Constitutional Settlement In Georgia*”, 20th December (ms), 1997, 16 pp.), “The Union Republic of Georgia”, or “The Federal Union of Georgia and Abkhazia” can be discussed.

will be calling this polity by a neutral term “the Common State”. First I will speak about the major principles which should be laid as basis of the future Common State. Secondly, I will list the most important constitutional provisions pertaining to the political status of the Republic of Abkhazia within the Common State. Finally, I will discuss the problem of the division of state powers between the Common State and the federated Abkhaz Republic. I would like to emphasise that the proposed model is the author’s personal view, though admittedly it is rather close to the official Abkhaz position.

## **5. Major Principles**

The relations between the Republic of Abkhazia and the Republic of Georgia within the Common State, as well as between the Common State and the federated republics shall be based on certain principles:

### a Political Equality

It would be futile to discuss a political settlement between Georgia and Abkhazia in terms of a hierarchical structure based on the principle of domination and submission, characteristic for the relations between the Georgian SSR and the Abkhaz ASSR within the Soviet system. According to the proposed constitutional model, Abkhazia will not be part of “Georgia” but of a Common State. The new state structure will encompass the Republic of Abkhazia and the Republic of Georgia as politically equal entities, which will be joined by Adjara and South Ossetia.

The relations between the federated states, Georgia and Abkhazia, will resemble the relations between member-states in such a federation as Belgium, where the Dutch-speaking Flemish region and the French-speaking Walloon region are politically equal entities, whose relations with the federal centre are also non-hierarchical. As emphasised by the Prime Minister of the Flemish Government Luc van den Brande, the policies of the Flemish Parliament or the Flemish government are “in no way subordinated to that of the federal government”.<sup>27</sup> According to a brochure issued by the Flemish government, “The Government of Flanders and the Federal Government do in fact share the same level of authority”, though they have a different set of competences.<sup>28</sup>

### b Commitment to the Union

The federated republics must be committed to the unity of the Common State and abstain from any actions that would endanger its political unity, territorial integrity or international obligations.

### c Non-interference

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<sup>27</sup>Cf. Luc Van den Brande, ‘Voorwoord’, in *Vlaanderen*, De Vlaamse Regering, Ministerie van de Vlaamse Gemeenschap, Departement Coördinatie Administratie Buitenlands Beleid, Brussel, 1997, p. 3.

<sup>28</sup>Cf. *Flanders. A State of Federal Belgium*, Ministry of Flanders, Coordination Department, Administration of Foreign Affairs, Brussels, 1997, p. 6.

The Common State must respect the republics' autonomy in their internal affairs and in their international competences to which they are entitled by the Constitution. The rule of the principle of non-interference in each other's competences can be regarded as an essential norm shaping relations between the Common State's Government and the federated states, as well as between the federated republics.

#### d The Political Status of the Republic of Abkhazia-Apsny

- The Republic of Abkhazia-Apsny is a democratic State based on the rule of law. It has its own Constitution, parliament, government, flag, coat of arms, anthem and other state symbols.
- The head of the Republic of Abkhazia-Apsny is the President of Abkhazia who must speak the Abkhaz language.
- Abkhazia is a constituent part of the Common State.<sup>29</sup> Abkhazia shall respect the territorial integrity of the Common State, whilst the latter shall not violate the Constitution of the Republic of Abkhazia-Apsny and does not infringe its sovereignty, territory and political status.
- As a federated state entitled to broad international competences, Abkhazia shall be a subject of international law.

Even according to official Georgian projects on the future status of Abkhazia, "Abkhazia may enter into international agreements within the framework of its competences, while keeping the respective federal bodies informed".<sup>30</sup> The capacity to enter into legal international relations with treaty-making powers means that Abkhazia, even in the Georgian view, shall be entitled to certain international legal rights and obligations and, therefore, shall acquire an international legal personality, or, in other words, shall become a subject of international law.

As pointed out by Akehurst, contrary to the situation in the nineteenth century, when only states were legal persons in international law, in this century also international organisations, individuals and companies have acquired some degree of international legal personality.<sup>31</sup> For example, "Article 43 of the UN Charter empowers the United Nations to make certain types of treaties with member-states - a power which could not exist if the United Nations had no international personality".<sup>32</sup> Likewise, federated states, if they are empowered by the federal Constitution to become parties to bilateral and multi-lateral international agreements, are in that regard considered as subjects of international law. In its 1994 Report to the UN General Assembly, the International Law Commission (ILC) stated: "Where an organ of a component state

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<sup>29</sup>Cf. The report of the Un Secretary General of 3 May 1994: 'Abkhazia would be a subject with sovereign rights within the framework of a union State to be established as a result of negotiations after issues of dispute have been settled' (S/1994/529, p.3).

<sup>30</sup>Cf. *Proposals of Georgia for Conflict Settlement in Abkhazia, Georgia*, Received by the author courtesy of Mr. Giorgi Badridze, the Georgian Foreign Ministry, in June 1997. Also available on the Internet under the title 'Proposals of Georgia on the Status of Abkhazia, Georgia', cf. <http://www.steele.com/GeorgAssoc/>.

<sup>31</sup>Akehurst, op. cit., p. 70.

<sup>32</sup>Ibid., p. 71.

of a federal State acts in a sphere in which the component state has international obligations that are incumbent on it and not on the federal State, that component state clearly emerges at the international level, as a subject of international law separate from the federal State, and not merely as a territorial government entity subordinate to the federal State.”<sup>33</sup>

International practice provides ample evidence of the wide range of possibilities for component states to act autonomously on the international scene. The Swiss Cantons and the German and Austrian Länder have their own foreign policy, participate in treaty-making by their Federation and have their own representations in many countries.<sup>34</sup> The Faro Islands and Greenland, which are self-governing territories within Denmark, and the Åland Islands, which are a self-governing territory within Finland, are separate members of the Nordic Council, an international intergovernmental organisation which encompasses the Scandinavian countries. In 1967 the Faro Islands joined the European Free Trade Association as a “commercially autonomous” Danish island area but left it in 1972 after Denmark decided to join the European Community. The Faro Islands did not join the EC together with Denmark, but negotiated a number of bilateral trade agreements with EC members instead. The same happened with Greenland, which was obliged to join the EC together with Denmark but opted out of Denmark’s membership in the European Community after the 1985 referendum on that issue.<sup>35</sup> The Adjarian Republic within Georgia and Flanders within Belgium are members of the Assembly of European Regions. In Canada, the Francophone Quebec province has been granted a separate status in its international relations. France gave a specific form of recognition to Quebec, which maintains a large official delegation in France. In international conferences Quebec is often listed separately from Canada and in certain cases Quebec participates with full rights on its own. Besides Quebec, other Canadian provinces also expand their direct international trade and business relations and representations.<sup>36</sup>

Even during the Soviet period, the federated Union Republics of Ukraine and Byelorussia enjoyed separate UN membership and possessed formally an international legal personality. Within the current Russian Federation, the Republic of Tatarstan can officially participate in the activity of international organisations. The paragraph 11 of the Article 2 of its Treaty with the Russian Federation reads that Tatarstan “participates in external relations, establishes relations with foreign countries and concludes with them agreements, which do not contradict the Constitution and international obligations of the Russian Federation, the Constitution of the Republic of Tatarstan and the present Treaty, it takes part in the activity of

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<sup>33</sup>Yearbook ILC, 1994, vol. II, Part I, p. 281 (quoted from Luc Van den Brande, ‘The International Legal Position of Flanders: Some Considerations’, in: K. Wellens (ed.), *International Law: Theory and Practice*, Kluwer Law International, 1998, p. 154). Probably it is opportune to distinguish between a recognised sovereign state as possessor of a “fully-fledged international legal personality” and a component (or federated) state as possessor of a “separate international legal personality”. The latter can enjoy rather substantial international competences, yet falling short of being considered as a fully sovereign international person. Nonetheless, both polities can be equally considered as subjects of international law.

<sup>34</sup>Ibid., p. 146.

<sup>35</sup>Elazar op. cit., pp. 95, 96.

<sup>36</sup>Ibid., p. 64.

corresponding international organisations”.<sup>37</sup> Article 62 of the Tatarstan Constitution says: “The Republic of Tatarstan enters into relations with other countries, concludes international treaties, exchanges diplomatic, consular, business and other representations, participates in the activity of international organisations, being directed by the principles of international law”. By 1995 Tatarstan has concluded more than 120 agreements with subjects of the Russian Federation (Bashkortostan, Udmurtia, Mari El, Chuvash, Komi, Kabardino-Balkaria, Kalmykia, North Ossetia, Khakasia), with all CIS countries (besides Armenia and Georgia), with the Abkhaz Republic, the Transdniestr Republic (within Moldova), the Crimean Republic (within Ukraine) and with such countries as Lithuania, Hungary, Greece, Bulgaria, Turkey, etc. Tatarstan has its own permanent economic representation offices in USA, France, Australia, Uzbekistan, Azerbaijan and Lithuania.

Though the international legal status of some of the aforementioned European provinces is sometimes disputed, this is not the case with the Belgian federated states. “As far as the Belgian Constitution is concerned, the Communities and Regions are fully-fledged subjects of international law”.<sup>38</sup> According to Belgian laws (Special Act of 5 May 1993), the federated states have extensive and exclusive international competences. They can enter into fully-fledged international treaties, having exclusive treaty-making powers in matters assigned to them, and are fully involved in the activities of some international organisations. Thus, the federated state Flanders has official missions and representations in foreign countries. Bilateral economic and cultural agreements were signed with Poland, Hungary (in 1994), Estonia, Latvia, Lithuania (in 1996), Rumania (in 1997). Flanders has also entered into co-operation agreements on a whole range of issues with the German Federal Republic, St Petersburg, South Africa, the Netherlands, Chile, China, some countries of South-East Asia, USA, Japan, Austria, etc. It has its own diplomats in Belgian Embassies, taking care for *inter alia* commercial and cultural Flemish foreign policies. French-speaking Wallonia has similar relations with a wide range of countries.

According to the Belgian constitutional framework, “when a treaty deals exclusively with matters within the competence of the federal authorities, their power to conclude this treaty is exclusive. Whenever the treaty deals exclusively with competences of the Communities or Regions, the competence of these authorities is exclusive: their respective Parliaments approve the treaty and the ratification is done by the respective government”.<sup>39</sup> Moreover, “If a third State refuses to conclude a treaty with a Community or Region on subject-matters within their exclusive competences, that third State is unable to turn to the federal State of Belgium. The latter is indeed incompetent and unable to substitute for any of its component units. In such a situation there would be no treaty at all”.<sup>40</sup> For instance, the Agreements concerning the protection of the Meuse and Schelde rivers were signed by France, the Netherlands and the three Belgian Regions but not by the Belgian federal

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<sup>37</sup>Cf. Rafael Khakimov, (ed.) ‘Rossija i Tatarstan: problemy assimetrichnykh otnoshenij’, in *Panorama-Forum*, No. 2, Kazan’, 1995, p. 9.

<sup>38</sup>André Alen and Patrick Peeters, ‘Federal Belgium within the international legal order: theory and practice’, in: K. Wellens (ed.), *International Law: Theory and Practice*, Kluwer Law International, The Hague, 1998, p. 139.

<sup>39</sup>Van den Brande, ‘The International Legal Position of Flanders: Some Considerations’, op. cit., p. 147.

<sup>40</sup>Ibid., p. 152.

Government. Commenting on this, Alen and Peeters suggest that the Belgian situation “might lead to a more general acceptance of member states of federations as subjects of international law”.<sup>41</sup>

- In matters of its own competence the Abkhaz Republic shall have a separate representation in certain international organisations and associations, including intergovernmental associations and non-governmental organisations. Abkhazia shall have its representatives within the official delegations of the Common State to the UN, OSCE, Council of Europe and some other international organisations. Besides, Abkhazia shall have its own diplomats in the Embassies of the Common State so as to take care of Abkhazia’s foreign economic and cultural interests.
- Possible disputes between the federated republics and the Common State or between the federated republics shall be dealt with by the Constitutional Court of the Common State or/and by special Arbitration Commissions.
- Abkhazia has seven provinces (Gal, Tqwarчал, Ochamchyra, Gulrypsh, Sukhum-Aqua, Gudauta, and Gagra). The territory of the Republic of Abkhazia-Apsny, whose borders coincide with the borders of the Abkhaz ASSR on 21 December 1991, is indivisible. The borders of Abkhazia cannot be changed without the joint consent of the Parliament and the President of Abkhazia and any such decision must gain final approval by a popular referendum.
- All natural riches of Abkhazia, its mineral wealth, air space and littoral are in the exclusive possession and exploitation by the multi-ethnic people of Abkhazia.
- The Republic of Abkhazia shall directly participate in law-making and in the constitutional reforms of the Common State in spheres regulating its relations with the Government of the Common State.
- Abkhazia shall reserve a right of veto on the adoption by the Government or Parliament of the Common State of laws that would infringe Abkhazia’s sovereignty, territory, borders or constitutional rights.
- All ethnic communities within Abkhazia are equal in their rights, they can freely manifest their ethnic, cultural and linguistic identity and organise their political, educational and cultural institutions.
- Within the context of Georgian-Abkhaz relations within Abkhazia it is not sensible to speak about “minority rights” in respect of the Abkhaz people. The latter, as much as, for instance, Tibetans or Turkish Cypriots, do not regard themselves as a “minority”,

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<sup>41</sup>Alen and Peeters (op. cit., p. 140). According to Luc Van den Brande (‘Policy Priorities 1995-1999’, in: *Flanders International*, Brussels, 1995, p. 11), “Flanders has acquired extensive international possibilities not shared by any other non-Belgian federated state in the world up to now”. “In theory ... Flanders has constitutionally determined and nearly unlimited possibilities regarding foreign policies. Some interfederal balances and constitutional agreements guarantee that the foreign policy of the federated states and that of the federal level are complementary, even without a hierarchy present. The Interministerial Foreign Policy Committee is deliberating in order to align the foreign policy of the federal authorities and that of the federated states to each other”.

but rather as a “people”, who, therefore, possess the right of self-determination.<sup>42</sup> The Abkhazians argue that they used to be a majority in Abkhazia until the end of the 19th century. They eventually became a minority due to the Tsarist Russian policy of deportation and ethnic cleansing in the 19th century and the deliberate policy of population transfer pursued by Soviet Georgian leaders. Besides, no ethnic group in Abkhazia boasted an absolute majority prior to the war of 1992-3, and even then the Abkhazians were the second largest ethnic community in Abkhazia. Therefore, in order to avoid the use of the notion “ethnic minority” as opposed to “ethnic majority”, potentially sensitive for ethnic self-awareness, it is probably more sensible to speak instead in terms of “ethnic communities” in respect to different population groups in Abkhazia (Abkhaz, Georgian/Kartvelian, Armenian, Russian/Russian speaking, Greek).

The Abkhazians would oppose attempts at marginalisation in their homeland because of their numerical weakness, which was the case in the past. They argue that, unlike Georgians, Russians, Ukrainians, Armenians, Greeks and other ethnic groups living in Abkhazia, the Abkhazians do not have any other homeland or cultural and political centre outside Abkhazia.<sup>43</sup>

Even formally democratic procedures (as, for example, the organisation of a referendum), if used as a political weapon of the ethnic majority in order to establish its rule and hegemony over the indigenous minority or to impose crucial political decisions which directly effect the fate of this minority, can seriously disturb inter-ethnic consent and have a most devastating effect on the security of both minority and majority communities.<sup>44</sup>

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<sup>42</sup>Cf. Khagba 1995: 9, 29, 54-55. Under contemporary international law, only ‘peoples’ are entitled to self-determination, including external self-determination, whereas ‘minorities’ are entitled to autonomy, i.e. to internal self-determination only. The UN recognised the Tibetans as constituting a ‘people’ and asserted their right to self-determination (cf. Musgrave, op. cit., p. 157), whereas such recognition was denied to Turkish Cypriots. In relation to the Abkhazians, the official UN parlance cautiously avoids referring to them as a ‘people’, using instead such terms as ‘the Abkhaz side (authority, officials, etc.)’. Other UN documents, however, do speak about the Abkhazians as a ‘people’, as for example in the “Report of the Secretary-General’s fact-finding mission to investigate human rights violations in Abkhazia, Republic of Georgia” (S/26795, 17 November 1993, p. 3), or in the 1998 United Nations Needs Assessment Mission to Abkhazia (p. 2, 54).

<sup>43</sup>It is probably worth mentioning that in Abkhazia only Abkhazians claim to be a separate people. All other ethnic groups (Kartvelians/Georgians, Armenians, Russians, Ukrainians, Greeks, etc.) consider themselves as being parts of their respective nations, whose central ethnic territories are situated beyond the borders of Abkhazia. This could lead to the conclusion that these ethnic groups in Abkhazia can be considered, without giving to it a value judgement and without prejudice to their rights, as minorities *par excellence*, because they live outside the central ethnic territory on which they constitute a separate people in its own right (Georgia proper, Armenia, Russia, Ukraine, Greece), and because they do not claim to be a separate people as opposed to the ethnic groups corresponding to them in the afore-mentioned states. Consequently, even being a minority, the Abkhazians are at the same time ‘a people’ and, as such, they are entitled to self-determination (including external self-determination). As pointed out by Duursma (op. cit., p. 41), “minorities do not have the right of self-determination, unless they are also peoples”, adding that the concept of minorities is inherently a relative one. Besides, “The right of self-determination has to do not with the choice of nationality, but rather with the choice of peoplehood” (ibid., p. 71). Speaking about the entire population of Abkhazia as representing ‘the people of Abkhazia’ (cf. Article 2 of the Abkhaz Constitution, which reads: “The bearer of sovereignty and the only source of authority in the Republic of Abkhazia shall be its people - the citizens of the Republic of Abkhazia”), it is worth noting that only its Kartvelian part is in the main critical of the secession of Abkhazia, all other ethnic groups being in the main supportive of, or sympathetic to, Abkhazia’s independence stance.

<sup>44</sup>As noted in this respect by Gidon Gotlieb (1993: 23), “Democratic rule may be a necessary but not a sufficient condition for the respect of human rights. The authors of the American Bill of Rights fully recognized that the rights of minorities and of individuals require protection from democratically elected governments”. Cf. the discussion of liberal and regulated views on democracy in respect to the Belgian ethnic situation in Ruth van Dyck, ‘Regionalizm, federalizm i prava men’shinstv v Bel’gii’, in: B. Koppiters, E. Remakl’ & A. Zverev, *Etnicheskie i regional’nye konflikty v Evrazii, Kniga 3. Mezhdunarodnyj opyt razresheniya etnicheskix konfliktov*, Moskva: Ves’ Mir, 1997, pp. 262-267.



Special measures and regulations will be needed so as to create, on the one hand, a regime of balanced representation in state organs of large ethnic communities and, on the other hand, to counterbalance and compensate for the numerical weakness of the native Abkhaz community in order to preclude inter-ethnic conflict. Such balancing regulations are applied in many democratic countries of the world and are regarded as justified democratic institutions. If we take Belgium as an example, the demand of the French-speaking Walloon movement to adopt protective measures against being politically sidelined as a minority has resulted in the elimination to a great extent of the majority principle at the federal level. The Council of Ministers comprises an equal number of Dutch- and French-speaking ministers, and the same principle is being followed in the composition of the Court of Arbitration, the Council of State, etc.<sup>45</sup> As an exchange for this concession by the Flemish, who are an ethnic majority in Belgium, the Flemish minority in Brussels has received similar affirmative action-type concessions. Although the large majority of the population of Brussels, which is at the same time the capital city of Flanders and of Belgium, is comprised of its French-speaking citizens (about 80 percent), whereas the Dutch-speaking community comprises only one fifth of the city's population, no bills can be passed by the Brussels regional Parliament without a majority consisting of both French and Dutch-speaking members. A balanced participation of Flemings and Walloons is also required for the formation of the Brussels Government.<sup>46</sup>

- The Government of the Common State shall support Abkhazia's policy of voluntary repatriation of the diaspora Abkhazians from Turkey, Syria or elsewhere whose ancestors became refugees due to the Tsarist Russian colonial policy, and shall provide diplomatic and financial assistance to the repatriation programme.

#### e Division of Powers between the Federated Republic of Abkhazia-Apsny and the Common State

The political formula laid at the basis of the constitutional arrangement between Abkhazia and Georgia which I propose here can be termed as "separate state entities internally, and a single aggregate state externally". This formula has its own appeal as it attempts to form a compromise between the widely divergent Georgian and Abkhaz positions and to create a viable state model based on power sharing and division between the constituent federated Republics and the Common State.

The Common State shall have its President, Parliament and Council of Ministers, its flag, coat of arms, anthem, and other state symbols. The capital of the Common State can be Tbilisi. The President of the Common State must speak the Georgian language. The President of one of the federated republics can become, if elected, at the same time the President of the Common State.

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<sup>45</sup>Working Paper for a Further State Reform. Adopted by the Government of Flanders on February 29, 1996, Brussels, Ministerie van de Vlaamse Gemeenschap, Departement Coördinatie, p. 10.

<sup>46</sup>Flanders. A State of Federal Belgium. Ministry of Flanders. Coordination Department. Administration of Foreign Affairs. Brussels, 1997, p. 13.

The Parliament and Council of Ministers shall comprise a proportional number of representatives from each federated state. The bi-cameral Parliament shall have the Senate, which shall be comprised of equal number of representatives of each of the federated states.

The Parliament shall issue new laws and amend already existing ones, which shall become obligatory on the territories of the federated states after their ratification by their parliaments.

The official languages of the Common State shall be Georgian, Abkhaz and Ossetian. Each minister or MP can freely use one of these official languages during the debates and speeches, or the Russian language, if (s)he so prefers. Official translation shall be provided. All official documents shall be translated into three official languages and into Russian.

In some federal states, like for instance in Germany, the federal laws have a primacy over the laws of the federated state. The Belgian model, according to which the federal and federated states' laws are on equal legal footing, seems to be more appropriate to the Georgian-Abkhaz situation. Possible contradictions shall be dealt with by the Constitutional Court of the Common State or by special Conciliatory Commissions.

International treaties concluded by the Government of the Common State which directly deal with Abkhazia (such as transit transport routes, pipelines, communications lines, ecology, etc.) shall be valid on the territory of Abkhazia after their ratification by the Abkhaz parliament.

The Common State shall be responsible for the following spheres of competences:

- Constitutional Court of the Common State;
- Representation in major international organisations (UN, OSCE, Council of Europe, etc.); recognition of other states; conclusion and ratification of international treaties, agreements and international programmes pertaining to the international competences of the Common State;
- Declaration of war and peace; membership in military alliances;
- jurisdiction regulating the border control and customs policies;
- federal budget;
- federal taxes;
- general co-ordination of monetary policies;
- the maintenance of relations between the federated states and general co-ordination of their policies;
- general macro-economic planning.

In case of declaration of war by the Common State, Abkhazia reserves the right to deliver alternatives to a full military involvement (sending of volunteers and of medical personnel, food supplies, assistance to rear services, etc.). The matters concerning the external defence and state security of the Common State, as well as concerning the co-

ordination of national armed forces and security organs of the federated states, shall become the subjects of special agreements.

In matters of external relations the Common State shall consult with Abkhazia over issues directly concerning or affecting Abkhazia. Abkhazia shall reserve a veto right on any international agreements concluded by the Common State if they infringe Abkhazia's sovereignty, security, constitutional and legal rights, or could cause undesirable or dangerous ecological consequences.

Transit roads and railroads that cross the territory of the Abkhaz Republic shall be taken care of by the Abkhaz authorities with appropriate subsidies from the budget of the Common State. The same shall apply for the transit communications lines and pipelines going through Abkhazia's territory.

The spheres of competence of the Common State can be expanded on the agreement of the sides. All competences that are not listed among those pertaining to the responsibility of the Common State, shall be within the responsibility of the Republic of Abkhazia.

Spheres of Competence of the Republic of Abkhazia-Apsny:

- Abkhazia's armed forces and organs of state security;
- Citizenship, immigration, emigration;
- Supreme Court;
- Maintenance of Abkhazia's police force, justice and penitentiary system;
- Central Bank; Abkhazia's finance, banking, monetary, budget and tax policies;
- Import and export policies, foreign trade and foreign investments;
- Privatisation, trade and business activities;
- Tourism;
- Agriculture, industries, fisheries;
- Exploitation of Abkhazia's natural resources, mineral wealth, air space and littoral;
- Educational, cultural, science and technology policies;
- Health care, social welfare, insurance;
- Media, publishing and broadcasting;
- Post, telegraph and telephone services;
- Protection of environment and ecology;
- Energy system;
- City planning and municipal services; housing and land ownership; public registry and statistics; employment;
- Roads, railroads, airports and sea ports and infrastructure; pipelines;
- Conclusion of international agreements and treaties in matters of Abkhazia's competence; foreign economic and cultural relations; participation in international organisations and programmes; maintenance of representations and missions abroad;
- Declaring state of emergency and martial law.

## f Citizenship

The citizens of Abkhazia shall have double citizenship of the Common State and of the Abkhaz Republic-Apsny. Passports of the Abkhaz citizens shall include indication of both citizenships. Regulations of such type have their analogues in other countries. Thus, in the Russian Federation the citizens of Tatarstan have a double Tatar/Russian citizenship. In the autonomous Faro Islands in Denmark passports issued to their citizens indicate the country: Denmark-Faro, and the dual nationality of the passport holder: "Danish-Faro". In Åland, which is a federated part of Finland, citizens also possess dual Åland and Finnish citizenship, which is indicated in their passports.<sup>47</sup>

All citizens of Abkhazia, disregarding their ethnicity or declared nationality, shall enjoy equal rights and freedoms and shall have equal opportunities and responsibilities. Any persecution or discrimination based on ethnic or religious grounds, as well as the stirring up of inter-ethnic hatred, shall be illegal and punishable in accordance with Abkhaz legislation.

Only citizens of Abkhazia shall have the right to vote, to possess lands or immovable property in Abkhazia. The citizens of the other parts of the Common State cannot work in Abkhazia without a working permit issued by the authorities of Abkhazia. Such regulations are necessary to maintain the ethnic and demographic balance in Abkhazia and to regulate immigration, which is a matter of prime concern for the Abkhaz community.

Restrictions of this kind are, though exceptional, known in some other states. For example, on the territory of the autonomous Åland Islands in Finland only permanent residents have the right to vote, to possess immovable property or to trade on the islands.<sup>48</sup>

## g Monetary System

Abkhazia can have its own separate currency, or, if so agreed, adopt the currency of the Common State. In the former case, on the territory of Abkhazia both currencies, of the Common State and of Abkhazia, shall be used, and the policies of the Central Bank of Abkhazia shall be co-ordinated with those of the Common State.

The analogues to this system can be found in other states. In Great Britain, Scotland has its own currency, issued by the Bank of Scotland, which is a part of the British monetary system and is kept at the same rate by convention. The autonomous Isle of Man also has formally its own pound. In Denmark, the federated Faro Islands have their own official currency, which is used in parity with the Danish currency.

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<sup>47</sup>Cf. Driessen, op. cit., pp. 4, 11; Elazar, op. cit., p. 100.

<sup>48</sup>Driessen, op. cit., p. 10.

## h Defence and Security

Abkhazia shall have its own armed forces, built on a multi-ethnic basis, which shall be part of the Common State's armed forces (recently Eduard Shevardnadze also asserted that Abkhazia would be entitled to keep its own army<sup>49</sup>). The borders of Abkhazia, including sea borders, shall be guarded by the (multi-ethnic) Abkhaz border guards. The Georgian army can enter the territory of Abkhazia only under joint consent of the President and the Parliament of Abkhazia. The police force of Abkhazia shall also be built on a multi-ethnic basis.

## i Language policy

In the school system, pupils will be able to choose between Abkhaz, Georgian, Russian or Armenian schools. Greek, Turkish or Megrelian language schools can also be allowed if so requested. The learning of the Abkhaz language in schools of Abkhazia shall be obligatory, and its knowledge shall be desirable, though not obligatory, for occupying governmental posts.<sup>50</sup>

## j External Relations

Abkhazia shall inform the Government of the Common State about its international activity, about its plans on concluding international agreements, and about its participation in international organisations. International agreements concluded by Abkhazia should not contradict international obligations of the Common State or its Constitution or its membership in other international organisations.

As international tourism and export of agricultural and light industry products will be the main domains of Abkhazia's economic activities, Abkhazia shall have the right to open tourist, business and cultural centres and offices abroad. These offices can also serve as consulting and information bodies when addressed by the foreign business and investment representatives who plan engagement in economic activities in Abkhazia.

Abkhazia shall maintain special missions in the countries having a sizeable Abkhaz diaspora (such as Turkey, Syria, Germany) in order to assist the local Abkhaz communities in their cultural needs and to regulate relations between the diaspora community and Abkhazia (such as the exchange of delegations, tourist, cultural and economic activity, as well as matters concerning repatriation to Abkhazia of the members of the diaspora).

## k International Guarantors

Major international organisations, like the UN and OSCE, and two neighbouring countries, Russia and Turkey, could be the guarantors of the established constitutional settlement between the Republic of Abkhazia-Apsny and the Republic of Georgia.

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<sup>49</sup>Cf. Fuller 1998.

<sup>50</sup>Except for the post of the President of Abkhazia, who must speak the Abkhaz language, as a symbol of Abkhaz statehood.

## **6. The Pan-Caucasian Perspectives for the Political Settlement between Abkhazia and Georgia**

The regionalist movement, which emerged in Western Europe in the 1960s and the 1970s, challenged the institutions of unitary European states and brought onto the political agenda the reality of “Europe of regions”.<sup>51</sup> Decentralisation in Spain, devolution of power in Great Britain, the federalisation of Belgium, the pressure for federalisation in Italy and for decentralisation in France are being pursued in parallel with a pan-European integrationalist movement. Individual States decentralise, whereas their regional associations acquire confederative and even federative traits, the most visible sign of which is the planned introduction of a single European currency. European regions and component states as parts of individual states are breaking through the inter-state barriers across already transparent borders and are striving to be directly represented in pan-European institutions. The old dream of a “United States of Europe” is steadily acquiring visible political shapes, and in this newly emerging political dimension not only individual sovereign states but their ever more independent regions or component states see themselves as fully-fledged participants or actors.

In this respect Western Europe, with all its inter-state military, political, financial, economic, cultural and ecological institutions, can serve as a model for a pan-Caucasian integrationist movement. A Caucasian Parliament, a Caucasian Common Market, a Caucasian Court and other pan-Caucasian institutions could become instruments of Caucasian regional integration and stability, which would make the Caucasus look more like an independent self-regulating economical and geopolitical reality than a peripheral battlefield of rival great powers. Within this framework both internationally recognised states and federated republics, autonomous regions or provinces could be represented as subjects of regional economic and political activity, which would freely trade and directly communicate with each other. The North Caucasian Republics of the Russian Federation, the federated Republic of Abkhazia-Apsny, South Ossetia and the Adjarian Republic, forming part of a Common State with Georgia, the Nagorno-Karabakh Republic, embedded into a Common State with Azerbaijan, could join a Caucasian Common Market and pan-Caucasian political and cultural institutions directly as individual actors and would have rights to co-decision-making.

Moreover, individual Caucasian peoples, who have no status of their own, could also be given, if they so desired, their own place within the framework of certain pan-Caucasian institutions (like a Council of the Caucasus, a Caucasian Common Market, etc.) alongside states and federated republics<sup>52</sup>, without prejudice to the sovereignty and integrity of the states in which they dwell.

Within a framework of a pan-Caucasian structure the transparent state borders, diminished sovereignty of central governments, full freedom of cultural and linguistic expression, cross-border cultural, political and economic institutions or associations would lessen the importance of being separate and independent and would enhance the

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<sup>51</sup>Yves Mény, *Government and Politics in Western Europe*. Britain, France, Italy, West Germany, New York, Oxford University Press, 1991, p. 10.

<sup>52</sup>On such a basis the Confederation of the Peoples of the Caucasus has been built.

sense of greater security and opportunities within a politically, economically and financially integrated democratic and pluralistic Caucasian family of nations.

The idea of pan-Caucasian political integration and pan-Caucasian security has long stirred imagination of many past and contemporary Caucasian politicians, beginning with Shamil, the leaders of the Mountain Republic and up to such modern Caucasian leaders as Dudaev, Gamsakhurdia, Ardzinba and Shevardnadze.<sup>53</sup> It is conceivable that when the Caucasian peoples manage to settle their most acute disputes, the time will be ripe for the first concrete initiatives in that direction. This is, however, a topic for a separate discussion.

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<sup>53</sup>Cf. Stanislav Lakoba, *Kollektivnaja bezopasnost' i uregulirovanie konfliktov na Kavkaze* (ms.), p. 5; 1998; Rafiq Aliev, "'Kavkazskij dom": vzgliad iz Azerbajdzhana', in: A. Malashenko, B. Koppiters, D. Trenin, *Emicheskie i regional'nye konflikty v Evrazii. Kniga 1. Central'naja Azija i Kavkaz*, Moskva, Ves' Mir, 1997, pp. 159-169. Cf. also David Atkinson, *Peace Plan for the Caucasus. A Paper for Discussion*, House of Commons (ms), 1997, 2 pp.; Potier, op. cit.; Khagba, op. cit., pp. 62-66.

# The Nagorno-Karabakh Question: An Update

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## Abstract.

*A brief overview of the historical background to the Nagorno-Karabakh conflict and the international community involvement to date is provided in chapters 1 and 2. Chapter 3 deals with the challenges ahead: territorial questions; replacing the cease fire by a legally binding political commitment; the safe return of displaced persons and refugees; economic and human development; foreign trade, aid and investment; organised crime and other non-conventional threats; the role of regional and global players. The concluding chapter points to the secrecy surrounding the deliberations of the Minsk Group and suggests that a wider debate on the conceptual frame for the resolution of the conflict is both timely and necessary.*

## **1. Landmarks of History**

History is a politically sensitive subject. Parties to a dispute, particularly when territories are involved, would resort to endless arguments in order to make their point relying for support on bulky files containing documents, maps, population surveys, statistical data, interpretations of place names, references to ancient chronicles, folklore, and even literary fiction. Almost invariably, the presentation of facts is more than slightly biased to serve a particular purpose. For that reason any attempt to offer a dispassionate record of historical facts is bound to be challenged by either party to the dispute, or both.

In addition, in the Caucasus, much like in the Balkans, recollections of past events (some going back centuries in time) are still likely to have an immediate impact on public sentiments and direct relevance for current political decision making.

According to Armenian sources, the province of Nagorno-Karabakh (described as Artsakh) was part of the ancient kingdom of Urartu (8<sup>th</sup> to 5<sup>th</sup> centuries B.C.) under the name of Urtekhe-Urtekhini. Azerbaijani sources also claim that the present-day inhabitants of Azerbaijan are direct descendants of the ancient local tribes that gradually adopted the language and cultural ways of the Turkic populations which started moving into the area by the 11<sup>th</sup> century A.D. When the Armenian state was divided (in 387 A.D.) between the Byzantine and the Persian empires, the eastern part of Southern Caucasus, including Artsakh, went to Persia but retained some degree of ethnic homogeneity and home rule under local princes (melikhs). The situation changed by the 18<sup>th</sup> century with the completion of the Turkic migration into the region. That is when the province acquired a new name: the Khanate of Karabakh.

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<sup>1</sup> Ambassador at large, Romania



In 1805, most of south-eastern Caucasus, including the Khanate, was incorporated in the Russian Empire. The cession was confirmed by the Russo-Persian treaties of Golestan (1813) and Turkmenchay (1828). After the collapse of the Russian Empire, the province of Nagorno-Karabakh became the object of bitter dispute and armed confrontation (1918-1920) between the newly formed Republic of Armenia and the Azerbaijani Democratic Republic. In 1920, Soviet forces occupied Southern Caucasus and established a military presence in the territories disputed between Armenia and Azerbaijan. In June 1921, Armenia declared Nagorno-Karabakh an inalienable part of its territory. A few months later, following Stalin's own intervention, the province was incorporated by Azerbaijan as an autonomous region, a status that was further confirmed in 1923.

In February 1988, the Assembly of People's Deputies of the Nagorno-Karabakh Autonomous Region passed a resolution asking to leave Azerbaijan and to become part of Armenia. Azerbaijan reacted by withdrawing the region's autonomous status. Serious disturbances followed with atrocities being committed by both sides. In the new circumstances created by the disintegration of the USRR, on 2 September 1991, the provincial authorities adopted a declaration proclaiming the independence of the "Nagorno-Karabakh Republic" which was confirmed by a referendum on 10 December 1991. The act of independence did not receive recognition by the Community of Independent States (CIS) or by any other nation. The ensuing war involved, in addition to local irregulars, the armed forces of both Armenia and Azerbaijan. It eventually resulted in the occupation by Armenian forces of a considerable portion of Azerbaijan and the establishment of a strategic corridor between Armenia and Nagorno-Karabakh (the districts of Shushi/Shusha and Lachin).

On 5 May 1994, the belligerent parties signed in Bishkek a cease fire protocol which still holds to this day. The terms of agreement were brokered by Russia and Kyrgyzstan under the aegis of the CIS Parliamentary Assembly.

## **2. International Community Involvement**

The OSCE Ministerial Council in Prague (30-31 January 1992) decided to send a fact-finding mission to Nagorno-Karabakh. It was followed by a field trip by Cyrus Vance, as Special Representative of the UN Secretary General, accompanied by OSCE experts. Their recommendations included: a cease fire agreement, lifting the economic blockade against Armenia, banning arms transfers to the warring parties, emergency humanitarian assistance, an OSCE observers group in situ.

In March 1992, the OSCE Ministerial Council in Helsinki decided to convene a special conference on Nagorno-Karabakh to be held in Minsk. It soon became obvious that there was no prospect for agreement among the designated participants (Azerbaijan and Armenia, the OSCE 'troika', Belarus, France, Italy, Russia, Turkey, United States), and the conference was postponed sine die.

In 1992 and 1993, the UN Security Council adopted resolutions 822 and 853 calling for withdrawal of troops from occupied territories, resumption of transport and communication links, exchange of hostages and prisoners of war, humanitarian aid, a permanent cease fire, and setting a date for the Minsk conference. In fact, the conference as such was never convened.

After the Bishkek cease-fire protocol was signed, a High Level Planning Group (HLPG) was established in Vienna (December 1994). In July 1995, it presented to the OSCE Chairman in Office the concept for a multinational peace keeping mission of the OSCE for Nagorno-Karabakh.

In August 1995, the office of Personal Representative of the OSCE Chairman in Office for Nagorno-Karabakh was created.

At the OSCE Summit in Lisbon (1996) the Chairman in Office made a statement calling for the territorial integrity of Armenia and Azerbaijan, the clarification of the legal status of Nagorno-Karabakh through an agreement based on self-determination whereby the province would acquire the highest degree of self-government as part of Azerbaijan and the security of the entire population in the area would be ensured. The statement received the consent of all OSCE member states with the exception of Armenia<sup>2</sup>.

In 1997, following extensive consultations, the OSCE Chairman in Office designated France, Russia and United States as co-chairs of the Minsk Conference. They prepared a two-stage plan providing for (a) demilitarisation of the cease-fire line and return of the refugees, and (b) a special legal status for the province of Nagorno-Karabakh. The proposals did not meet with the approval of the parties to the conflict<sup>3</sup>.

Quiet diplomacy by the “Minsk Group of 3” began to yield some results in 1999.

Early in 1999, Russian Foreign Minister Igor Ivanov proposed the convening of a “Forum on the Caucasus” but did not elaborate further.

The “Peaceful Caucasus” initiative conceived by President Eduard Shevardnadze of Georgia was launched at about the same time. It emphasised the common interest of the

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<sup>2</sup> The OSCE Lisbon Summit Declaration reads:

“Three principles which should form part of the settlement of the Nagorno-Karabakh conflict were recommended by the Co-Chairmen of the Minsk Group. These principles are supported by all member States of the Minsk Group. They are:

- Territorial integrity of the Republic of Armenia and the Azerbaijan Republic;
- Legal status of Nagorno-Karabakh defined in an agreement based on self-determination which confers on Nagorno-Karabakh the highest degree of self-rule within Azerbaijan;
- Guaranteed security for Nagorno-Karabakh and its whole population, including mutual obligations to ensure compliance by all the Parties with the provisions of the settlement.”

<sup>3</sup> According to unconfirmed reports, the basis for a resolution of the conflict would have to cover two stages:

- At the first stage, Armenia should withdraw from the 6 provinces surrounding Nagorno-Karabakh and which are presently under Armenian occupation. International peace keeping forces will move in to guarantee the security in the area and keep the two ethnic groups apart.
- At the second stage, after the Nagorno-Karabakh status has been decided, the Shushi and Lachin districts will be returned to Azerbaijan.

three countries of the Southern Caucasus to develop a modern revival of the ancient Silk Road.

A meeting of the speakers of the Parliaments of Georgia, Armenia and Azerbaijan took place, in October 1999, at Luxembourg under the aegis of the Speaker of the Council of Europe Parliamentary Assembly.

At the OSCE Summit in Istanbul (18-19 November 1999) the presidents of Armenia and Azerbaijan referred in their speeches to the need for a stability arrangement in Southern Caucasus. It is to be noted that the two presidents suggested somewhat different lists of out-of-area participants: while President Aliyev of Azerbaijan suggested the involvement of the United States, Russian Federation and Turkey, President Kocharyan of Armenia mentioned Russia, Turkey and Iran.

Reports that have not yet been officially confirmed indicate that, in December 1999, Armenia put forward a proposal for a Security Treaty for Southern Caucasus which was immediately supported in a separate demarche by Moscow.

The proposal was apparently tabled again in early January 2000 in a modified version as a preliminary Round Table on Stability in Southern Caucasus according to a 3+3+2 formula (Georgia, Armenia, Azerbaijan + Russia, Turkey, Iran + United States, European Union).

### **3. Substance of the Challenges ahead**

Since the cease fire of 1994 the situation in and around Nagorno-Karabakh has been characterised by military stand-off (with just a few relatively minor flare-ups) and political stand-still. Most analysts accept that the status quo cannot endure indefinitely and cannot provide the basis for a permanent settlement. The stalemate has so far favoured the ascent of more radical elements in both Armenia and Azerbaijan ("It's not just land, it's honour!"). It is also likely to fuel a continued arms race regardless of what the international community may have to say about that. The impact on the democratic process, economic development and social conditions in the two countries has been considerable. Regional co-operation schemes cannot make substantive progress in a climate of political uncertainty and in the absence of meaningful security and stability arrangements that should be acceptable both to the parties concerned and to the international community.

A brief inventory of the problems related to the Nagorno-Karabakh conflict may provide some indications as to the magnitude and complexity of the efforts required to bring about viable and lasting solutions.

#### a Territorial questions.

Basically, there are three aspects which need to be more thoroughly examined:

- The legal status of the Nagorno-Karabakh province and the nature of its relationships with Azerbaijan and Armenia;
- Transitional arrangements concerning the territories of Azerbaijan which have never been part of the Nagorno-Karabakh Autonomous Region and are now occupied by the Armenian forces, including the strategic corridor linking Nagorno-Karabakh to Armenia;
- Symmetrical or similar arrangements for free access to the Azerbaijani enclave of Nakhichevan along Armenia's border with Iran.

Suggestions have been made in academic debates, presumably based on diplomatic leaks, about a possible exchange of territories and populations as a radical solution to the daunting question of dealing with Stalin's legacy of patchwork sovereignties in the region. The political intricacy and the cost in human suffering of such a solution may be too mind bogging to be seriously contemplated.

b Replacing the cease fire by a legally binding political commitment.

Here again two possible solutions can be realistically envisioned, both of them requiring an involvement of, and guarantees by, the international community:

- A bilateral political treaty between Armenia and Azerbaijan;
- A more comprehensive multilateral arrangement for the Southern Caucasus.

c The safe return of displaced persons and refugees.

The situation in this respect is, indeed, serious, especially in Azerbaijan. Visitors can still see the dire conditions in which hundreds of thousands of refugees have to live in Baku or other cities (and also in Tbilisi, as a result of the Abkhasian conflict). They represent the natural recruitment base for radical, revenge-seeking movements which aim to undermine any peaceful settlement and may even jeopardise the democratic process in the countries concerned.

d Economic and human development.

The sheer size of the domestic markets, complementarity of resources, and interconnection of infrastructure networks would warrant a regional approach rather than go-it-alone strategies. In normal circumstances, the country with the largest vested interest in closer regional ties should be Armenia, which may otherwise see itself cut off from the enormous business opportunities arising from the region's position as a staging post between Europe and the oil rich Caspian zone. The perpetuation of the Nagorno-Karabakh conflict and its fall-out is now the main, though not necessarily the single, obstacle to beneficial regional integration.

e Foreign trade, aid and investment.

Although the economies of both Armenia and Azerbaijan have been able to adapt to a certain extent to the post-war situation, their bilateral trade is virtually nil, and the

Nagorno-Karabakh conflict continues to affect in a perverse manner their relations with the neighbouring countries and the rest of the world. Significant foreign direct investment is not likely to happen unless and until the conflict is resolved. This applies in particular to the large regional projects like the European Union's TRACECA and INOGATE, and also to the development of integrated energy and communications networks.

f Organised crime and other non-conventional threats.

So much weaponry in a limited space, the lingering tradition of private armies and informal local warlords, strong clan and extended family loyalties, poverty and lack of definite prospects for much of the younger generation provide a propitious breeding ground for criminal activities with potential consequences well beyond the confines of the region. The war situation and its attending effects tend to exacerbate those threats. Only strong democratic national governments, unburdened by the ever-present fear of war, can engage in a constructive co-operative effort to limit the damage to manageable levels.

g The role of other regional and global players.

The Caucasus is an area of strategic interest and it is therefore subject to geopolitical calculations. Two aspects need to be addressed in a more detailed fashion:

- Individual countries or groups of countries having established legitimate interests in the stability of Southern Caucasus (Russian Federation, Turkey, Iran, the Central Asian countries, the states on the western shores of the Black Sea, United States, European Union);
- International organisations and international financial institutions (United Nations and its agencies, OSCE, OBSEC, again European Union, UNECE, WB, IMF, EBRD, etc).

#### **4. The Way Forward**

The Minsk Group co-chairs have so far played holding the cards very close to their respective great-power chests. Very little transpired about their deliberations and even less about the sequence of steps they may have in mind. Some of the results of their gentle nudging and cajoling have become apparent in the past year and especially in the past few weeks. There may be wisdom in such an approach. But we are coming to a point where joint implementation will certainly call for additional inputs.

A broad conceptual framework agreement is probably more likely to be produced within a narrow group of players in view of the sensitivity and complexity of the matters to be handled. Past experience indicates, however, that there will be loose ends to be taken care of. Some of the aspects that may have been dismissed as minor in the early planning stages may loom large when it comes to actually do something about them.

In the last analysis, any solution, no matter where and by whom it is conceived, will have to count on the largest possible expectation of consent by the many men and women who will have to live with it.

For these and other reasons starting a wider debate on both the conceptual frame and the minutiae of the Nagorno-Karabakh question is a timely exercise, and it may prove to be more productive than many people now think.

# **It's not about ancient hatreds, it's about current policies: Islam and stability in the Caucasus**

Brenda Shaffer<sup>1</sup>

## Abstract

*The use of religious labels regarding the various sides to the hostilities in the Caucasus contributes little to understanding the roots of these conflicts and subsequently, finding appropriate solutions. Islam is not the primary collective identity of most of the Muslims of the Caucasus, and plays only a minor role in the conflicts afflicting the region. Not all violence perpetrated by Muslims is Islamic terror, and not all political movements involving Muslims are Islamic movements. Most of the observant Muslims in the region are not connected to Wahabbism and this label is often inappropriate. The major coalitions of states involved in the conflicts are not based on religious affinity. In terms of external actors involved in Islamic radicalism in the region, most of them originate from countries with are considered pro-Western: Saudi Arabia, Pakistan and Turkey (primarily non-official groups). The activity of "Afghani Arabs" in the region is a source of instability and concern. Iran's policy in the region is based primarily on geopolitical concerns, and the propagation of Islamic fundamentalism is only a minor facet of their activity in the region.*

## **1. Introduction**

Many of the reports and analysis on the Caucasus often describe the conflicts as emanating from ancient hatreds, religious differences and as long-rooted. When describing the motivations and behaviour of Muslims involved in the conflicts, such as Chechens and Azerbaijanis, the descriptions overwhelmingly assume that Islam is their primary collective identity, that their struggles are based on Islam, and that their religious beliefs make them prone to hate non-Muslims and to act in a violent way. For instance, Chechens are usually described as "Islamic insurgents", while the forces from Moscow are "Russian soldiers", described by their ethnic and state affiliation, but not by their religion. The conflict in Karabakh is frequently described as a dispute between Christian Armenia and Shi'i Muslim Azerbaijan, while religion plays little role in the conflict. Samuel Huntington explains the conflicts in the Caucasus as emanating from the location at a "fault line" between Orthodox Christianity and Islam,<sup>2</sup> assuming that the coalitions in the area largely break down on a Christian/Muslim basis. Accepting these explanations of the origins of the conflicts assumes that the behaviour of local elites and of external powers did not cause the conflicts, but that the religious differences and the history of interaction of the peoples of the Caucasus made these conflicts almost inevitable. Logical extension of this analysis of the inevitability of these conflicts is that little can be done to rectify the situation by way of changing the behaviour of the external powers in the Caucasus region.<sup>3</sup>

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<sup>1</sup> Harvard University

<sup>2</sup> Samuel Huntington, *The Clash of Civilizations: Remaking of World Order* (N.Y.: Touchstone, 1996), p. 278.

<sup>3</sup> This attitude was reflected in Samuel Huntington, *New York Times*, December 16, 1999 in which he applied his "clash of civilizations" analysis to current policy prescriptions toward the Chechen conflict.

In contrast, evidence suggests that history of hatred and reasons for enmity exist almost everywhere, yet conflicts do not erupt in every region. Moreover, even in places where there is a history of positive interaction, mutual tolerance, and religious affinity, conflicts often breakout. It seems that these conflicts are not pre-determined by ancient hatred and religious differences, but shaped by current behaviour and policies of local elites and regional powers. Moreover, in the case of the Caucasus, especially in the interaction between Armenians and Azerbaijanis, there is as much historical evidence of positive interaction as there is attesting to negative interplay, thus the chronicle of the relations of the two peoples has little to do with the conflict that emerged between them. Furthermore, different religious affiliations play only a small role in the conflicts currently waging in the Caucasus and specifically Islam plays no role in the Karabakh conflict with Armenia and only a minor role in the Chechnya war in Russia. In terms of the role of Islam in the conflicts in the Caucasus, a variety of assertions will be made:

- Islam is not the primary collective identity of the majority of the Muslims of the Caucasus. Especially in the case of Azerbaijan, ethno-national identity is clearly stronger than Islamic identity.
- The major coalitions of states involved in the conflicts are not based on religious affinity. For instance the Islamic Republic of Iran has joined in cooperation with Armenia and Russia to the disadvantage of Shi'i Azerbaijan.
- Iran's policy toward the conflicts in the Caucasus is driven by its state geo-political interests, and little by Islamic ideology. Moreover, Iran engages in Islamic propagation in the Caucasus almost exclusively when it cannot damage its strategic interests in the area, and often uses Islam manipulatively in order to advance those interests, primarily vis-à-vis Russia.

Collective identity exists on a variety of levels in the Caucasus: family or clan, regional grouping, ethnic group, religion, republic and, for some, a certain "Soviet" identity. Religious affiliation is only one of the multi-layers of identity of the residents of the region, and not necessarily the primary. Various collectives perform a role in the politics of the region. For instance, traditional groupings, such as extended family networks in Azerbaijan, have filled some of the functions no longer executed by the state and thus softened the blows of the shift to market economy and the collapse of the social net previously provided by the state. Furthermore, the relative lack of violence inside states like Azerbaijan, even during heightened political upheaval, can partially be explained by the functioning of the extended family representatives as a facilitator between parts of the government and the demands of the wider public. Moreover, family ties are held with highest regard among most of the peoples of the Caucasus and greater Caspian region, and frequently there are family links between members of rival political camps, such as Heydar Aliyev and Abulfaz Elchibey in Azerbaijan. Thus, often periods of instability and political upheaval in the region, such as those in Azerbaijan, are not marked with high degrees of violence. Family ties play a role in the political processes in the region, adding a dimension to ethnic ties. For instance, they play an important part in preserving the attachment between Azerbaijanis in the republic and beyond its border in Iran, as well as between Armenians in the state and in Karabakh and Georgia. The common primary allegiance to extended family members weakens the potential allure of



other collective ideologies, such as Islam, although, of course, it is also present in the region. At the same time, these strong family allegiances also serve as an impediment to state-building and fostering national solidarity, which can be sources of stability.

In neighbouring Central Asia, one of the important factors contributing to the relative internal stability in the new Muslim states since the Soviet break-up is the strength of the local, traditional power structures that have survived as a bulwark against major turmoil in the region, allowing continuity in leadership and reduced influence of external, radical forces. These local power structures, such as family and regional groupings endured in the Soviet period and the Soviet-era political elites in the region were most often grounded in these traditional structures. Their survival under the Soviet Union and their duration after its demise, explain why no “vacuum” was created that could have been utilised by foreign or other radical factors.

## **2. Islam in the Caucasus**

For most of the Muslims of the Caucasus, Islam serves as a component of their ethnic and regional identity, but is not their primary collective identity. Solidarity on an Islamic basis with Muslims beyond the Caucasus is minimal, although beginning to emerge among small groups in the North Caucasus. Most members of the region hold in high regard their local cultures, and they are not particularly susceptible to chief identification with the broader Muslim world. Furthermore, Islam rarely serves as a unifying ideology of primary identity uniting the Muslim residents in the region, and many conflicts prevail among members of the same religion.

Outside forces have too easily labelled mass forms of dissent in the region as “Islamic.” For example, when Azerbaijanis removed border posts in December 1989 in attempt to make contacts with their co-ethnics beyond the border in Iran, Western sources tended to interpret this as their desire for ties to “Khomeinism” in Iran. More recently, activity of Chechens involved in what they view as a national struggle for independence is predominately termed in the West as “Islamic” violence and activity, despite the fact that Islam plays a quite secondary role in the conflict. Islam in and of itself is not destabilising and not all ethnic or regional conflicts in which Muslims are involved are inherently religious. Not all acts of violence and terror perpetrated by Muslims should be seen as Islamic terror. The Islamic label and the Muslim origin of many of the peoples of the Caucasus is often manipulated for promotion of their own agendas by a variety of forces, both within and from outside the region. With Western audiences and at home, Moscow forthwith throws the Islamic label on movements of Muslims within its border demanding political independence or autonomy in order to cast aspersion on them and to attain American sympathy and acceptance of its policies against the insurgents. In the Soviet period, pious Muslims were generally referred to by the misnomer “Wahabbists”, which had a more frightening association than simply observant. Russia has continued with this labelling of Muslim activists, despite the fact that few of the Muslims in the Caucasus are actually connected to Wahabbist movements. Muslim radicals in the Middle East also like to attach the Islamic stamp to uprisings in the Caucasus and Central Asia and often grant support to political movements in this area, even if the basic goal of the movement is not Islamic in nature, although in the long run, they can gain influence in this manner.

Many of the fighters in the Caucasus, such as Shamil Bashayev, like to attach the Islamic label to their struggle in order to add an air of legitimacy and respectability to their often power-based struggles and violent behaviour, when in their personal habits they show little signs of religious piety.

The overwhelming majority of the Muslims of the North Caucasus are Sunni, whereas the Azerbaijanis are predominantly Shi'i. However, the Shi'i factor has no influence on the Azerbaijanis' political orientation or activity, and actually Azerbaijan has tense relations with its Shi'i neighbour, Iran. In the region, Islam is predominately a cultural force, and scarcely a political force, especially in Azerbaijan. Islam forms the framework for major rites of passage, such as marking birth, death and marriages, but appears in few political contexts. In the northern Caucasus, Sufi Islam is very prominent and popular and does not traditionally aim for the formation of political or highly institutionalised frameworks, and as such can potentially contribute to fostering political moderation. Sufi Islam is as a whole highly condemned by Wahabbist ideology, and does not seem to be good breeding ground this movement, further weakening Moscow's claims of the Wahabbist basis of the Chechen movement.

Azerbaijan declared in its Constitution clear separation between religion and state and did not grant any special status to Islam. Moreover, religious parties are illegal and clerics may not run for office in Azerbaijan. As part of their drive for clear separation between religion and state, courts in Azerbaijan have demanded that women remove head coverings for photos for their official documents. Azerbaijan has a long tradition of secularism. With their inclusion in the Russia Empire, the Azerbaijanis were among the first Muslim groups to fall under European colonial rule. In keeping with Russian colonial policy, most of the powers of the Muslim clerical establishment were usurped. Freed from the constraints of the *ulema*, the Azerbaijanis and other Muslims in Russia became a bridgehead of secularism and proponents of modern education in the Muslim world.

In the north Caucasus, in contrast, some of the local regional governments have granted special status to Islam. However, local identity is very strong and it does not seem likely that the universalistic Islamic identity will surpass it as the primary collective identity of the different groups in the North Caucasus.

In Azerbaijan and in the north Caucasus, official clerical hierarchies, mosques and institutions of religious learning are functioning, predominantly in the attempt to control Islam and mobilise segments of its proponents in service of the regime. The official Islamic institutions have achieved varying degrees of success. In terms of the conflicts afflicting the region, the official clerical establishment in the Caucasus tends to promote stability and is adverse to any form of Islamic radicalism and most kinds of Islamic-based political activity. Moreover, these elements are viewed by the official clerics as their rivals for power and status. In many instances, such as in Chechnya and in connection to the Karabakh conflict, the establishment Muslim clerics have promoted moderation and attempted to advance conflict resolution. Nonetheless, it must be noted that due to their collaboration with the ruling state elites in the region, most of the establishment clerics are delegitimised in the eyes of the more radical and

devout Muslims in the region and subsequently they have little influence over extremist Muslims in the area, and many influential independent clerics are operating in the region.

Not having undergone Western colonialism, many residents of the area do not harbour an anti-Western orientation, and many maintain an ambivalent relationship toward Moscow. Even enthusiastic supporters of independence of the region, often are willing to recognise the contributions of the interaction with Russia played in their national development. At the same time, some residents of the region are angered by the incursion on traditional local values and culture by the onslaught Western culture in the post-Soviet period, but it seems that Moscow is as blamed for that cultural assault as much, if not more so, than the West.

Political activity involving Muslims and the patterns of their struggles do not necessarily conform to the image of Muslim behaviour associated with radical Arab movements in the Middle East. The absence of use by the Azerbaijanis of terror against civilian Armenian targets in the Karabakh conflict illustrates this point.

Religious based radical behaviour seems most prevalent in the region in places where many people live outside their traditional places of residence. Affected by the alienation of new surroundings, often in large cities, without the welfare safety nets provided by their homes as well as the social constraints on their behaviour, individuals are more susceptible to radical influences and prone to behaviour of this type in their non-traditional settings.

In attempt to assess the extent of the hold of Islam on the population in the Caucasus region, it is important to separate between indicators of social conservatism and Islamic piety. In many parts of the region, social norms are in place, many pre-dating Islam's arrival to the region, that mandate strict behavioural codes in fields such as sexual activity and dress. Many factors such as social segregation and occupational differentialisation between the sexes, modest dress and the covering of the hair among the women have been interpreted by many researchers as external signs of Islamic religiosity and identity. Many Azerbaijanis, for instance, are secular in their outlook and do not observe many explicit Islamic laws (such as the prohibitions on alcoholic drinks and eating pork), even though they observe many conservative social customs. It seems that much of this traditional behaviour is rooted in practices, which the practitioners did not necessarily associate with the Islamic religion when observing them.

Close-by examples of the results of wide political violence and Islamic radicalism, such as neighbouring Afghanistan and Tajikistan, and the results of the Chechen conflict, serve as constant reminders to the residents of the Caucasus of the dangers of extremism of this type and even many religious people in the region have stated that radical Islamic-based political action must be avoided so that their country doesn't become "another Afghanistan."

In terms of export of Islamic radicalism to Caucasus, the most active external forces are from countries with a Western security orientation, such as Pakistan, Saudi Arabia and Turkey, although most of the Islamic groups are not associated with the ruling governments there and many are in opposition to the regimes, especially in Turkey. Ankara is also active in fostering its official version of Islam in the region through the institutions and employees of its

Ministry of Religious Affairs, although many of these may not be actually promoting the agenda that their sponsor would like. Moreover, residents of the region have remarked that even Turkey's version of non-political Islam, is more religious than that which is prevalent in the region, and thus Ankara may inadvertently be promoting Islam through these programs. Moscow's recent actions in the name of combating potential Islamic terror against "Caucasians" residing in the capital and other major cities in Russia, booting them home to the Caucasus and depriving many of their livelihood, may bolster the potential supporters for Islamic and other radical politics and add to the instability of the region.

A source of potential instability in the region emanates from the "Afghani Arabs." This term is used to refer to the Arab and other Muslim volunteers that came from outside Afghanistan and joined in the struggle in the 1980s against the Soviet Union. Service together in Afghanistan created an international network of Islamic radicals, sharing knowledge and experience in low-intensity warfare and terror. This network often offers assistance to different movements in the region and attempts to encourage them to undertake radical activity, and some of the local movements have accepted this aid. All in all, though, external elements have not been able to turn Islamic-based political activity to a major force at this juncture in the Caucasus.

### **3. Iran and the Caucasus**

Iran's policy in the region is largely guided by geo-political state interests and less by ideological goals, such as promotion of Islam.<sup>4</sup> With the collapse of the Soviet Union, Iran grasped that a potentially conflict-laden zone had replaced its once stable northern border and that influences from the new states could permeate the internal Iranian arena. From the inception of their independence, Tehran took a very sober attitude toward the establishment of the new Muslim republics, seeing in this development the dangers that emanate from the internal ethnic factor in addition to the opportunities for expanded influence:

The first ground for concern from the point of view in Tehran is the lack of political stability in the newly independent republics. The unstable conditions in those republics could be serious causes of insecurity along the lengthy borders (over 2000 kilometres) Iran shares with those countries. Already foreign hands can be felt at work in those republics, especially in Azerbaijan and Turkmenistan republics, with the ultimate objective of brewing discord among the Iranian Azeris and Turkmen by instigating ethnic and nationalistic sentiments.<sup>5</sup>

Iran is a multi-ethnic society in which approximately fifty percent of its citizens are of non-Persian origin. The largest minority group is the Azerbaijanis, which comprise close to a third of the population of Iran. Other major groups include the Kurds, Arabs, Baluch and Turkmen. Many of these groups are concentrated in Iran's frontier areas, and most have ties to co-ethnics in adjoining states, such as Azerbaijan, Turkmenistan, Pakistan, Iraq and Turkey.

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<sup>4</sup> In areas not bordering Iran's territory, such as Tajikistan and Uzbekistan, the ideological Islamic element is a stronger facet of Tehran's policy.

<sup>5</sup> Tehran Times, December 30, 1991, p. 2.

Thus, Iran's ethnic groups are especially subject to influence by events taking place in these bordering states, and the ethnic question is not merely a domestic matter. One of Tehran's chief goals in the region has been to prevent destabilisation in Iranian Azerbaijan and a rise in ethnic-based activity among the Azerbaijanis in Iran.

Iran's cautious attitude toward the Caucasus is quite justified. Following the independence of the Republic of Azerbaijan, a flurry of activity associated with the probing of ethnic and national identity occurred among Azerbaijanis in Iran. The establishment of the Republic of Azerbaijan challenged the national identity of co-ethnics beyond the borders of the new state and served as a stimulant for many Azerbaijanis in Iran to identify with the Azerbaijani ethnic group though not necessarily with the new state itself. In the early 1990s, a significant rise in expressions of Azerbaijani ethnic identity in Iran has been observed, as well as important political manifestations of that identity. This rising Azerbaijani identity has generated few calls for the Azerbaijani provinces to secede from Iran and join the new republic, but rather for increased cultural rights within Iran.

Its close relations with Armenia illustrate the non-ideological nature of Iran's policy toward the region. Despite its rhetoric of neutrality in the Karabakh conflict, in and of itself inconsistent with the official ideology of a state that portrays itself as the protector and champion of the Shi'i in the world, throughout most of the post-independence period, Iran cooperated with Armenia despite its struggle with Shi'i Azerbaijan for control of Karabakh, evidently preferring overall that the Republic of Azerbaijan remain involved in a conflict, making it less attractive to Iran's Azerbaijanis and unable to allocate resources to stir-up 'South Azerbaijan.' Tehran adopted anti-Armenian rhetoric only at times when the results of the conflict directly threatened Iranian state interests. Yet, the non-ideological nature of Iran's policy toward the Karabakh conflict, for instance, has not strengthened the stability in the region. Rather, Iran's cooperation with Armenia and its tacit support in the conflict with Azerbaijan over Karabakh strengthened Yerevan's actual and perceived power and consequently may have lessened its sense of urgency to resolve the conflict. Moreover, Iran's perception of fear of the Republic of Azerbaijan serving as a model for rising ethnic-based identity of its own Azerbaijani community has led it to have an interest in prolonging the Karabakh conflict, albeit on a low level of intensity. Iran has come to share an interest with Russia in protracting the strife; thus this factor has contributed to the cementing of Russian-Iranian cooperation in the Caucasus, additionally complicating conflict resolution here. Russia is interested in sustaining the conflict since it provides a means of influence and manipulation to promote Moscow's strategic, economic and political interests in the Caucasus, an area which it still considers a zone of highest importance, especially in the military and economic spheres. Moreover, the perpetuation of the conflict provides a means to preserve Yerevan's dependence on Moscow and thus its acquiescence to the stationing of Russian troops in its territory. External involvement and manipulation has been a major factor that has aggravated the Karabakh conflict and contributed to its protraction and escalation.

Moreover, the dispute over the rights of the Azerbaijani minority in Iran and Baku's often irredentist activities serve as a major factor of tension in the relations between the Republic of Azerbaijan and Iran which have led to an increase in Baku's sense of isolation and vulnerability. This tension has impeded cooperation between Iran and Azerbaijan and

aversely affected wider regional cooperation, while contributing to Baku's drive to seek association with western security systems, advancing the projection of Iranian-American rivalry into the already troubled Caucasus region. Advancing of Western presence in the Caspian region has reinforced Iran's threat perception from these developments in an area that borders its territory, adding an element, which contributes to instability in the region.

Tehran's policy toward the Karabakh conflict is a good example of the diversity of opinions, which contrasts with its monolithic image, evident in the foreign policy-making process in Iran. The prevailing official Iranian foreign-policy establishment promoted tacit support for Armenia in the conflict and expanding cooperation with Yerevan, evidently as a counter to potential Azerbaijani irredentism. This policy was reflected in journals such as Tehran Times. This policy, set by overriding state interests, encountered open opposition from ideological steadfasts, who advocated adopting Islamic solidarity toward the Azerbaijanis in articles in Jomhuri-ye Islami. Even with the Iranian Foreign Ministry, there seemed to be diverging opinions over the fitting policy toward the conflict. Some actors, such as Deputy Foreign Minister, Va'ez, seemed to have an institutional interest in Iran serving as a successful sponsor of the negotiation process between the conflicting sides and thus he seemed to play a candid role in conducting them in the early 1990s. Va'ez's criticism of Russia as a spoiling factor in the negotiations at this time contrary to the evolving trend of Tehran-Moscow rapprochement is an indication of his apparent veracity in the negotiation process on his part that may not have reflected the prevailing Iranian policy. Moreover, members of Iran's minorities- both Azerbaijanis and Armenians- lobbied and pressed for Iran's promotion of policies that favoured their respective co-ethnics beyond Iran's borders and directly organised aid to their corresponding groups. This urging itself reflects that significant numbers of Azerbaijanis and Armenians in Iran identify with co-ethnics in the newly established republics, many evidently, parallel, to identifying as Iranians. The different viewpoints of various policy-making factors in Iran toward the conflict and relations with Azerbaijan and Armenia can partially explain some policy inconsistency and shifts in relating to Karabakh.

Iran's reactions to both the first and second Chechen conflicts in the 1990s illustrate the non-ideological nature of its policy toward the Caucasus. Iran attaches high importance to its relations with Russia, who has become a major political ally and an important partner for both economic and military cooperation, thus was careful not to harm its relations with Moscow. Overall, the official Iranian statements and media was quite mild in its criticism of Russia in these wars, despite the Muslim background of the Chechen rebels, and Iranian officials frequently commented that the conflict was an internal Russian matter. Official Iranian condemnation was only aired at times that other issues in the state-to-state relations between Iran and Russia were in conflict over other issues. Moreover, Iran's complaisance on the Chechen issue was often rewarded by Moscow by a reaffirmation of its commitment to supply Tehran with its strongly sought after nuclear reactors.<sup>6</sup>

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<sup>6</sup> See statement of the Russian Minister of Atomic Energy, quoted IRNA in English, 6 January 1995 (FBIS-NES-95-005), following very mild Iranian official reaction to the first Chechen conflict, Voice of Islamic Republic of Iran, 4 January 1995 (FBIS-NES-95-003).

#### **4. Conclusions**

The conflicts in the Caucasus have created interesting bedfellows, beyond the cooperation between Iran, Armenia and Russia, diverging from nominal lines of religious or "civilizational" affinity. For instance, Chechen activists assisted Moscow in aiding the Abkhaz in its struggle with Georgia. Furthermore, initially after the Soviet break-up, transports of food supplies to Armenia went through Turkish territory, often to the chagrin of Baku.

The use of religious labels to categorise the various sides to the hostilities in the Caucasus contributes little to understanding the roots of these conflicts and subsequently, finding appropriate solutions. Western relative lack of a business-like approach to the grievances of the Muslim peoples of the Caucasus and their assumptions concerning their motivations in the struggles can act like a self-fulfilling prophesy and push many of the Muslim peoples of the Caucasus into radical Muslim arms.

# A Regional Security System for the Caucasus<sup>1</sup>

Bruno Coppieters<sup>2</sup>

## 1. Introduction

With the disintegration of the Soviet Union the Caucasus region became the site for some of the most serious inter- and intra-state conflicts. The political elites of the newly independent states have been well aware that their security could not be considered apart from each other, and that they were confronted with a pattern of ethnic conflicts which was specific for their region.<sup>3</sup> Seen from this perspective, the Caucasus constitutes a regional formation with its own characteristics. This awareness of the regional dimension of the security problem did not lead, however, to the creation of a unitary institutional framework for the Caucasus favouring conflict settlement and regional cooperation. The failure in designing a regional security arrangement was not due to the lack of interest in the idea of Caucasian integration. Political movements in the region have developed a radical rhetoric of Caucasian unity, but with radically opposed contents. Caucasian unity has been defined in a way which may be considered as simultaneously overinclusive – the various views of Caucasian unity are generally based on a kinship relation, a cultural affinity or an alliance with nations or political forces which are external to the region – and underinclusive – the various views of unification generally exclude some of the nations and political forces from their definition of a unitary Caucasus.

Non-regional states have been mapping the Caucasus in function of their own security interests. Their priorities are defined in military, political or economic terms. Such definitions lead invariably to the inclusion of the Caucasus into a larger regional framework, generally including the Caspian states and the Central Asian region. This risks to lead to a neglect of the specific regional pattern of conflicts and of the interdependency linking the various parts of the Northern and the Southern Caucasus. These conflictual and dependency relations, which constitute a regional formation, are to be differentiated from the pattern of conflicts and interdependencies in adjacent regions. Definitions of the region in exclusively economic terms – such as the view of the Caucasus as part of a Silk Road linking European and Asian markets – stress the common interests of all Caucasus countries but fail to address the complexity of a conflictual process of regional integration, in which economic interests are not always predominant.

The lack of regional institutional arrangements favouring associative forms of security led to attempts to address the security threats through balance of power policies. All

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<sup>3</sup> On the idea of a regional security formation see Barry Buzan, *People, States and Fear. An Agenda for International Security Studies in the Post-Cold War Era*, New York – London, Harvester Wheatsheaf, 1991, pp. 186-229. For an application of this notion of a regional security formation on the Caucasus see Bruno Coppieters, 'Conclusions: The Caucasus as a Security Complex', in Bruno Coppieters (ed.), *Contested Borders in the Caucasus*, Brussels, VUBPress, 1996, pp. 193-204, also on <http://poli.vub.ac.be/publi/>



regional actors have tried to revise the existing forms of distribution of power through alliances with regional and non-regional powers. Military policies figured high in such an approach to the regional security problems. The resulting system aimed at counterbalancing dominant forces but did not exclude hegemonic types of dominance. Russia has been making use of its military preponderance in the region to build a close alliance with Armenia and to extract concessions from Georgia. It has secured a division of labour with the UN and the OSCE in their attempts to settle the secessionist conflicts of Abkhazia, South Ossetia and Nagorno Karabakh. Georgian expectations of recovering its territorial integrity through cooperation with Russia have however not been met. Russia failed likewise to find acquiescence in Azerbaijan for its regional policies and mediating activities. Russia's striving to establish a hegemonic role in the Southern Caucasus has further been weakened by its lack of economic resources and by political instability in the Northern Caucasus.

In their moves to counterbalance the Russian presence in the region, Western states are taking advantage of their preponderance in economic resources and military know-how. Countries such as Georgia and Azerbaijan are presenting their attempts to cooperate more closely with Western countries as a means of increasing their leverage in the internal and external conflicts in which they are involved. Linking their own security interests to the interests of Western states - though for instance common energy policies - would in their view secure a future increase in the provision of public goods such as military support or what further seems necessary to protect their territorial integrity. Such expectations are surely effective in creating legitimacy on the domestic level. Western support to Georgia and Azerbaijan has also strengthened their bargaining power vis-à-vis Russia. But it will be impossible, even with a significantly increased presence of Western powers in the region, to change the pattern of secessionist and ethnic conflicts in the region. The existing balance of power in the Caucasus is creating deadlock for all parties involved. Non-regional powers striving for a hegemonic role in the region are unable to deliver sufficient public goods to secure security and economic development. The lack of integration, to a large extent a consequence of their own policies in the region, is hurting their long-term economic and military interests.

The lack of progress concerning the implementation of inter-governmental agreements on the establishment of transport routes and the impossibility to lift existing economic blockades are gravely affecting the interests of the states in the region and of non-regional actors. These policies may be considered as a direct consequence of a securitisation of economic policies.<sup>4</sup> A securitization of economic or political issues has the following characteristics: it tends to lead to a subordination of the interests of non-state economic and political actors to state interests. Second, a securitisation of economic and political issues makes all types of negotiations difficult. It is not easy to accept a compromise solution when the basic interests or even the survival of the ethnic community or the state is declared to be at stake. Third, a securitisation of a particular issue is leading to the mobilisation of extraordinary resources, where economic cost-

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<sup>4</sup> On the concept of securitization see the various publications of the authors of the Copenhagen School such as Barry Buzan, Ole Waever and Jaap de Wilde, *Security. A New Framework for Analysis*, London, Lynne Rienner, 1998. On the Soviet traditions in securitizing policy issues see Bruno Coppieters, 'Een Overladen Veiligheidsagenda. Een Terugblik op de Ondergang van de Sovjet-Unie en op de Houding van de Vlaamse Vredesbeweging', to be published in: *Vlaams Marxistisch Tijdschrift*, Spring 2000.

benefit calculations are subordinated to higher state interests which are not economic by nature. The securitisation of economic or political issues is justifying an enhanced mobilisation of economic and human resources to the detriment of long-term economic development and political modernisation.

Negotiations on a settlement of secessionist conflicts in the region has to address the question of how to desecuritize ethnicity. The Soviet ethno-federal construct was a pyramidal matrioshka-like structure of Union republics, Autonomous republics and Autonomous regions. All these entities were considered to realise a right to national self-determination for a particular "titular nation", but according to an asymmetrical and highly hierarchical pattern. The break-up of the Soviet Union has in several cases dissolved the existing links of subordination between Union republics and the political entities which were incorporated into them. The selective approach of the international community in its policies of recognition - it recognised exclusively the existence of Union republics as sovereign states - failed to find acceptance in Autonomous republics such as Chechnya and Abkhazia. The secessionist leaderships of these political entities stressed the fact that they were republics, which implies statehood. As statehood necessarily includes sovereignty they considered that they were to be treated as sovereign states. As sovereign states they further claimed that they had the right to decide autonomously if they should constitute themselves as independent states.<sup>5</sup> Autonomous regions such as Nagorno-Karabakh or South Ossetia did not find their previous status acceptable either. The leadership of the Autonomous region of Nagorno-Karabakh strove for reunification with Armenia, then for independent status and then as a compromise formula - as proposed at the end of the 1990s during the OSCE-led negotiations on a settlement - the status of a sovereign entity linked to Azerbaijan in a loosely structured 'Common State'. South Ossetia has from its side been striving for upgrading its status to that of an Autonomous republic and for reunification with North Ossetia, one of the Autonomous republics which are part of the Russian Federation.

The securitisation of ethnicity achieved through the Soviet form of political modernisation rendered political solutions which challenged the privileged status of the "titular nation" unacceptable. The titular nations of the former Union republics are not ready to accept a loss of control over the totality of the territory which they consider their homeland, including over subordinated political units such as the former Autonomous republics or regions. Secessionist regions refuse to accept that the previous links of double dependency - from the Soviet leadership and from the leadership of the Union republic - would be replaced by new forms of subordination to state institutions which are under the control of another "titular nation". A peace settlement which would be based on the reincorporation of the secessionist political entities on the basis of traditional hierarchical relations existing in federal states would not find legitimacy among the secessionist elites. Russia, Georgia and Azerbaijan would not, from their side, agree on a confederal type of political arrangement, as this would enshrine the sovereign status of the secessionist regions and give them some kind of international recognition as sovereign entities. This would possibly lead to a full secession. No compromises seem to

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<sup>5</sup> Abkhaz scholars have claimed that the status of an Autonomous republic in the Soviet federal structure logically implied a form of statehood and that statehood logically should imply sovereignty. Contrary to Tatarstan, Abkhazia has extended the claim to sovereignty to a claim to independence. Abkhaz independence was declared in 1999.

be possible concerning these principles. Traditional federal and confederal models have few chances of being accepted as a basis of negotiation by the parties to the conflict. The dead-lock in the negotiations can only be overcome through the design of such a type of a "Common State" which would at the same time secure the principle of territorial integrity, the equal status of the various national communities and the implementation of non-hierarchical relations between federated states in domestic and foreign policies.

## 2. Exploring Alternatives

The expectation that an external actor may be able to establish an absolute hegemony through a preponderance of its economic and military resources, the provision of public goods and by finding acquiescence among all regional actors may be considered as unrealistic. No hegemony may in the future be able to influence the pattern of conflicts in the Caucasus to the same degree as the Soviet Union after the invasion of Georgia in 1921. Attempts to establish a hegemonic type of relationship may only influence the distribution of power in the region. Such a situation, characterised by the absence of a dominant actor able to enforce a pattern of cooperation in an anarchic framework, does not necessarily lead to the impossibility of establishing a cooperative security framework. A similar situation existed in Europe in the 1970s, where no single hegemony was able to extend its dominance over the whole of the Eurasian continent. All states which participated in the CSCE process had sufficient incentives by their own to establish a new pattern of co-operation, independently from existing hegemonic relations.

It is not impossible that a cooperative security framework will be established in the Caucasus. Since the end of 1999, the governments of Turkey and the Southern Caucasus have been making separate proposals for a security arrangements such as a Stability Pact for the Caucasus. In their speeches to the OSCE Istanbul summit, the Armenian president Robert Kocharian and the Azeri president Heidar Aliev both advocated a South Caucasus security system that would complement the existing European security arrangements.<sup>6</sup> Kocharian also pointed out that the urgent need to create a "regional or sub-regional system of security" was due among others by the withdrawal of Azerbaijan and Georgia from the existing CIS- Agreement of Collective Security.<sup>7</sup> From the perspective of Armenia, such a new system would be helpful to avoid the difficult choice between an alliance with Russia or the West. From the perspective of Azerbaijan, the power of a single hegemony does not constitute a guarantee for peace and stability in the region. According to the Deputy Foreign Minister of Azerbaijan, Araz Azimov, the only guarantee of regional security would be the absence of a unilateral guarantor.<sup>8</sup>

The idea of a regional security pact has not yet been presented in an elaborate form by any of the governments involved. Its implementation would surely depend on the negotiations taking place in the region, such as the one concerning the political status of Nagorno-Karabakh. A resolution of this conflict would bring about dramatic changes in

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<sup>6</sup> *RFE/RL Newslines*, Vol. 3, No 227, Part I, 22 November 1999.

<sup>7</sup> Ara Tadevosian, 'Armenia's 'Diplomatic Success' at OSCE Summit', in: *IWPR's Caucasus Reporting Service* No 8, 25 November 1999 published on-line: [www.iwpr.net](http://www.iwpr.net)

<sup>8</sup> Ara Tadevosian, 'Armenia Forced to Choose between Washington and Moscow for Friends', in: *IWPR's Caucasus Reporting Service* No 12, 23 December 1999 published on-line: [www.iwpr.net](http://www.iwpr.net)

the relations between Armenia and all neighbouring states, increasing the possibilities for new cooperative schemes to be implemented in the region. The same is true if a break-through could be achieved concerning Abkhazia or Chechnya. It remains difficult at the time of writing to predict the chances of success for such negotiations. Diplomats dealing with the negotiations between Armenia and Azerbaijan repeatedly announced in 1999 a break-through, without, however, producing any positive results which could be presented to the public. In the case of Nagorno-Karabakh, the appeals made simultaneously by the governments of Azerbaijan and Armenia for a new regional security arrangement do however, demonstrate that the dead-lock in the negotiations has led to a mutually hurting stalemate. This may be considered as a sign that both sides are aware of the need for productive negotiations. It also shows that the parties involved in this conflict are conscious of the fact that an institutional settlement of such a conflict, which is regarded by one of the parties (Armenia) as an intra-state and by the other (Azerbaijan) as an inter-state conflict, requires that such differences are subsumed under an overarching institutional device.

It is not the intention of this article to design concrete mechanisms for a regional stability pact or a regional security organisation. It may suffice to sketch some main principles which would facilitate its effectiveness, taking into account the explanatory factors of the failure of the present forms of integration. A regional security institution for the Caucasus would have to be based on the principles of associative security arrangements.<sup>9</sup> Such a rule-based form of interaction has to favour a climate of dialogue and cooperation, and facilitate communication concerning threat perceptions and transparency concerning the military policies of individual states. This kind of arrangement does not necessarily have to aim at replacing regional alliances but rather to integrate them and to constrain their destabilising potential. This could be made possible through a close trilateral cooperation between the three powers with hegemonic ambitions in the region (Russia, the EU and the US) in delivering public goods such as technical assistance, financial support and in facilitating – through security organisations such as the CIS or the OSCE - the work of peace keeping forces.<sup>10</sup> Their cooperation would be based on the fact that their main interests, though competitive, are not necessarily divergent. Their failure to act in common would indeed carry the danger of even more serious confrontations in the region, which are detrimental to all.

This form of integrating the three would-be hegemonies in a local regional arrangement means that the present system of balance of power, which is to be considered an important impediment to integration, has progressively to be transformed – due to the strength of the cooperative security arrangement - into a system where the creation of alliances addressed against the one or the other party would progressively recede into the background. The same would be true concerning the use and the threat of the use of force or the refusal to agree on forms of co-operation which entail the risk or bringing greater profit to the opposite party than to oneself. A security organisation such as NATO's Euro-

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<sup>9</sup> On balance of power mechanisms operating in cooperative security regimes see Ralf Emmers, 'The Balance of Power Factor in Regimes for Cooperative Security: The Early Days of ASEAN and the ARF', paper presented for the 24th Annual Conference of the British International Studies Association held at the Manchester Conference Centre 20-22th December 1999.

<sup>10</sup> See Sergiu Celac, Michael Emerson, Nathalie Tocci et al., *A Stability Pact for the Caucasus. A consultative document of the CEPS task force for the Caucasus*, CEPS, Working document no 145, May 2000.

Atlantic Partnership Council (EAPC), whose self-declaratory aim is to overcome the cold-war system of a balance of power but which is presently used in the Caucasus region in a complex system of alliance-building, would have to develop activities which are more in line with its political rhetoric. A similar transformation would have to take place in the CIS, which is at present mainly used in the region by Russia to counterbalance Western influence and by Georgia to drive a wedge between Moscow and the secessionist government of Sukhum(i).

A regional organisation or stability pact which would encompass the Southern Caucasus without integrating Russia would lead to the inverse consequences of those depicted above: instead of transforming the present regional organisations away from a balance of power logic, it would subsume the non-confrontational logic of a stability pact or regional organisation under the present logic of alliance building. A regional security arrangement would - in order to avoid similar consequences - further have to encompass Iran which is as yet no part of present security institutions present in the region. After its failure to mediate in the Nagorno-Karabakh conflict,<sup>11</sup> Iran had played, through its open support for Armenia, a significant role in the relations between Azerbaijan, Armenia and Turkey.

Regional and non-regional actors have defined the Caucasus region according to different cultural or even civilisational contents. A regional security arrangement which would be based on the same values and principles as the OSCE would be able to overcome these divisions, as has already been the case for the OSCE itself. This organisation includes among its member-states countries with very different political traditions such as Denmark and Kazakhstan. The capacity of the OSCE to operate with universal values and to implement them in concrete policies, such as the monitoring of elections, demonstrates that it should not be too difficult to overcome the risk for "civilizational clashes" in the Caucasus.

Regional and non-regional actors do not attach the same significance to their military, political or economic interests in the Caucasus. The European Union has developed support programmes in the fields of communications and infrastructure. Energy security for an enlarged European Union and democratisation of state structures belong to its long term objectives. In so far as their military interests are concerned, the EU Member states defend very different policies. Some are actively engaged in military cooperation activities or send military observers to hot spots such as Abkhazia<sup>12</sup>, whereas others are entirely absent from the region. The European Union does not presently play any role in this regard. Russia has taken a great interest in the military dimension of national security. Such differences between the priorities set by the various actors do not facilitate their cooperation. They can, however, be overcome by relatively traditional methods. Those who negotiated the functioning of the CSCE in the beginning of the 1970s were confronted with a similar problem. Not all participating states attached the same importance to the human rights dimension of European security or to the international recognition of post-war borders. The use of different baskets has been very useful to

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<sup>11</sup> See Abdollah Ramezanzadeh, 'Iran's Role as Mediator in the Nagorno-Karabakh Crisis', in: Coppieters (ed.), op. cit., pp. 163-177.

<sup>12</sup> Out of the 109 military observers present in October 1997 in UNOMIG forty were from EU countries. See Coppieters, 'Western Security Policies and the Georgian-Abkhazian Conflict', in: Bruno Coppieters, David Darchiashvili and Natella Akaba (eds.), *Federal Practice. Exploring Alternatives for Georgia and Abkhazia*, Brussels, VUB University Press, 2000, p. 45.

avoid a stalemate in defining priorities and to facilitate simultaneous progress in different security dimensions. Such a system should preferably be included in a regional security arrangement.

A solution concerning the political status of secessionist regions would inevitably lead to the lifting of economic blockades – which directly or indirectly affect the interests of all countries in the region – and to agreements concerning the establishment of new transport routes. The institutionalisation of a security dialogue in a cooperative framework would lead to a desecuritisation of some political and economic issues which are presently highly securitised. The extraordinary material and political means which are presently mobilised to enhance the individual security of the regional actors could be used for economic development purposes. The desecuritisation of political life could lead to a different type of agenda-setting at the governmental level, facilitating political democratisation and modernisation. The desecuritisation of economic and political life would also enforce the position of non-state actors - such as economic actors or NGOs with political objectives- in the integration process.

The conception of shared sovereignty has not found acceptance among the political elites in the Southern Caucasus. These countries are all based on the Soviet tradition of a "titular nation" exercising exclusive privileges over a particular multi-ethnic territory. The failed attempts of former Autonomous republics to find recognition for their statehood and of former Autonomous regions to upgrade their political status, and the refusal of former Union republics to have the principle of equality being included in an agreement with secessionist republics has led to a stalemate in the negotiations. It is surely difficult to find a compromise concerning such questions in an international order in which sovereignty is still considered to be the cornerstone of independent statehood. There have been various moves to create regional organisations which were primarily to include non-recognised states and unofficial movements. The Abkhaz secessionists have for instance stressed the need for pan-regional initiatives in the Caucasus. This would strengthen their position in relation to Georgia.<sup>13</sup> The military support received by the Abkhaz side from paramilitary troops of the Confederation of the Peoples of the Caucasus during the 1992-93 war was highly significant, even if it is not probable that such a type of military alliance may ever be repeated in the future. On 21 May 1999, the Abkhaz parliament requested the Parliamentary Assembly of the Russo-Belarusian Union to be granted the status of an observer, just as this had already been granted to Yugoslavia and Armenia.<sup>14</sup> This represented for Abkhazia one more attempt to achieve a certain form of recognition by the outside world. But it is unlikely that such initiatives will lead progressively to a full recognition of Abkhazia's independent statehood.

Initiatives in which exclusively non-recognised states or movements would take part do not have more chances of success in favouring integration than regional organisations in which only central governments of recognised states would participate. Both types of organisations exclude a cooperative framework with political actors whose actions are

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<sup>13</sup> See Stanislav Lakoba, 'Abkhazia, Georgia and the Caucasus Confederation', in Bruno Coppieters, Ghia Nodia and Yuri Anchabadze, *Georgians and Abkhazians. The Search for a Peace Settlement*, Bundesinstitut für Ostwissenschaftliche und Internationale Studien, Sonderveröffentlichung, Oktober 1998, pp.113-121, also electronically published <http://poli.vub.ac.be/publi/>

<sup>14</sup> *Nezavisimaya gazeta*, 25 May 1999.

perceived as a threat for the own security. The alternative to such attempts is constituted by organisations where various levels of governance and various types of political entities are fully represented. The linkage of a peace settlement to the creation of a type of regional organisation which, contrary to the OSCE and other traditional forms of regional institutions, would include the governments and/or parliaments of unitary states, federal governments and of federated states or of other self-governing political units would indeed constitute a way out of this deadlock.

Such an option should not be considered as utopian. Both the Nordic Council and the British-Irish Council are organisations of this type. The Nordic Council was set up in 1952 to foster co-operation between Denmark, its autonomous territories the Faeroes and Greenland, Finland, its autonomous Swedish-speaking Aland Islands, Iceland, Norway and Sweden.<sup>15</sup> The characteristics of the British-Irish Council (BIC) are particularly interesting for the Caucasus. This model includes a prominent security dimension which is largely absent from the Nordic Council. The British-Irish Council (BIC) has been established in the framework of the Good Friday Agreements of April 1998 on Northern Ireland.<sup>16</sup> The BIC allows direct co-operation between such entities as Scotland, Northern Ireland, Wales, the Channel Isles, the Isle of Man and the governments of Ireland and Britain. It is also called "Council of the Isles", a title which is less state-centred as the other name, but which has the disadvantage of being strongly reminiscent of the British state before the creation of the Irish Free State. The inclusion of the BIC in the Good Friday agreement was fundamental for the Northern Irish Unionists acceptance of the package deal. It was intended to supersede the North-South institutional links between Northern Ireland and the Republic of Ireland with East-West links between the Republic of Ireland and the United Kingdom. The first meeting of the BIC took place after the establishment of a coalition government in Northern Ireland in 1999. All the actors involved are free to develop institutional links among each other. The BIC goes beyond consultation between the partners into the possibility of 'joint-decision making' on matters of mutual interest, such as economics, politics and culture.

It is interesting to note that such a type of institution is not only expanding the scope of possibilities for non-sovereign political entities to develop foreign policy making but is also suited to opposing political movements.<sup>17</sup> For British patriots, the inclusion of such a form of devolution into the political modernisation of the British state institutions constitutes an instrument to renew and strengthen the unity of the nation. For the Scottish nationalists of the Scottish Nationalist Party (SNP), who are convinced of the fact that independent nation states are best placed to interrelate with each other, it is a possible future instrument to develop autonomous foreign policies, once they are part of the Scottish government. The SNP wishes to cultivate 'Celtic' links between Scotland, Wales and Ireland. Scotland and Northern Ireland may also fashion working relations independently from London - which would be welcomed by the SNP - or Dublin - which

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<sup>15</sup> On the Nordic Council as a model for the British-Irish relations see Simon Partridge, 'Nordic-style institutions recommended for Irish-British islands', in: *Eagle Street. Newsletter of the Finnish Institute in London*, January 1998 and various other papers published in the same newsletter. This publication is available on the internet site <http://finnish-institute.org.uk/>

<sup>16</sup> On the British-Irish Council see Vernon Bogdanor, *Devolution in the United Kingdom*, Oxford, Oxford University Press, 1999, pp. 107-108. A report of the first meeting has been published in *The Irish Times*, December 18, 1999. See also Graham Walker, 'The Council of the Isles and the Scotland-Northern Ireland Relationship', in *Scottish Affairs*, No 27, Spring 1999, pp. 108-123.

<sup>17</sup>On the following: Ibid.

is favoured by the Unionists. The BIC may create room for competing national heritages. Irish nationalists in Northern Ireland cultivate Celtic identity, shared by Scotland, Wales and Ireland, whereas the Unionists may strive for closer cultural and historic links with Scotland (such as the intellectual flowering in both regions in the 18th century).

The fact that it had been possible to find acceptance among movements pro and against secession of Scotland or Northern Ireland for common political institutions which favour governmental dialogue and cooperation may be a good omen for the Caucasus. The numerous hurdles in establishing a coalition government in Northern Ireland and in implementing the various clauses of the Good Friday Agreement show, however, how difficult it also may be, even in countries with a long-standing democratic culture, to abandon faith in the ultimate ratio of the use of force.



# Economic Survival Strategies in North Caucasus

Alexandru Liono<sup>1</sup>

## Abstract

*As the research of the economic conditions in North Caucasus is limited, this paper aims at giving an overview of the main instruments for economic survival in a region where conflicts are not only an issue of theoretic debate. The paper investigates the relation between each North Caucasian Republic and Moscow, as the main source of income for the local budgets, alongside with an entrepreneurial prospective on the actions of the local governments and population. Quite surprisingly, many of the republics are doing rather well, given the local circumstances, and the explanation for their relative prosperity may be found in the diversity of ways and methods used for economic growths. The study attempts to look beyond statistics, as they may be not that relevant for the case in point.*

North Caucasus is a region which, in the last decade, has only become known in the world through the negative experiences that affected the life of its peoples. From time to time such issues as Chechnya, Ingushetia, Daghestan, Ossetia, emerge in exclusively negative contexts: armed conflicts, spread of terrorism, Islamic extremism. Probably many kept asking themselves why conflicts emerged here with the regularity of a Swiss-made watch. The extraordinary mixture and diversity of peoples, nationalities and religions is only one face of the issue. The heritage of the last century may explain many problems that North Caucasus is facing today. The discretionary redistribution of lands, deportations and other punishments meted to entire peoples, overt discrimination and persecution—Stalin's own recipe—are only a few of the brutal interventions that communities in that region had to suffer during the twentieth century.

Conflicts are, as mentioned before, a rule rather than an exception in the area. But, while territorial, ethnic, religious and other issues are often raised and tackled in a manner which is as unusual as it is counter-productive, ordinary people have to keep on living their lives. Besides the problems caused by the increasing number of refugees, people have to find resources for surviving. Survival has become a key-notion here over many years, not only in recent times. North Caucasus gained the fame of a troubled region during not just decades, but centuries. The people in the region developed most sophisticated and often surprising techniques for making a living. In fact, survival has become an art here. Although the methods they use may seem to those who by chance belong to the Western part of the world a mere return to primitive existence, those simple devices managed to ensure the subsistence of numberless people and of entire nationalities in the region.

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In order to make sense of the methods used and the actions undertaken for economic survival in North Caucasus they shall be divided into two categories: paternalistic and entrepreneurial.

### **1. The benefits of the paternalistic approach**

It has become a tradition for the analysts of economic life in the Russian Federation to classify its regions into donors and receivers (dotatziionniye regioni). Given the unequal distribution of national wealth, be it industry and services or natural resources, among the different territorial units of Russia, some regions are major donors, while others have to rely on subsidies from a budget which is entirely administered by Moscow. This has its own advantages, as well as its drawbacks. The advantage is that the local leaders can rely upon the budget subsidies, provided they have good connections in the Federal Government. Thus they can win the support of the electorate without too many efforts. The disadvantage is that leaders with a more developed entrepreneurial spirit have to virtually fight wars with the Ministry of Finance for the funding of anything like regional development programs, investments, infrastructure, etc.

The whole region of North Caucasus is a subsidised one. The natural resources of the region are either exhausted or too costly to resume production or to begin an entirely new mining business. The manufacturing industries, poorly developed as they were, were left in shambles after the dissolution of the unified Soviet market. Agriculture seems to work somehow, but only to the extent of providing some basic food products to the region. The same applies to basic services.

All the autonomous republics and other administrative units in the area make use of central government subsidies as a convenient and easy way of getting some financial resources for their economic survival. The most heavily subsidised republic is Daghestan, with over 80% of its revenues coming from Moscow. The more “successful” territorial units, like Kabardino-Balkarya are still covering some of their needs at the expense of the Federal Budget. Even Chechnya, the black sheep of North Caucasus has received some 800 million rubbles (around 50 million USD) in 1998. Let us see what those resources cover.

The largest piece of the cake is meant to provide a minimum of social protection. Pensions, salaries for state employees, children allowances, various compensations ensure a minimum of income for a large number of families. Electricity, gas and other household services are sometimes provided for free, and their value is deducted from the total sum assigned to a certain republic. Funds for investments and development programs are rarely provided, which is rather strange for a region that the Russian Federation claims is of utmost strategic interest.

Under these circumstances, one may survive but certainly not become rich. North Caucasus is not the only region in Russia, which lives according to this unsophisticated arrangement. Though, the specific history of the region has endowed the leaders with an unusual sense of responsibility toward their respective communities, be it a family or a

republic. Moreover, whenever the situation permitted, many of them proved to be highly successful businessmen. In fact, North Caucasus is a region where people take pride in being wealthy. Some local chiefs are competing for the unofficial title of the most successful entrepreneur in the region.

## **2. State handouts are not enough**

With this we come back to our classification of paternalistic and entrepreneurial methods for economic survival. The dissolution of the Soviet Union was followed by a major re-configuration of the relations between the regional leaders and the Federal Centre. The centrifugal processes of the early 90's induced Moscow to encourage and treasure the loyalty of regional bosses. The subsidies from the Federal budget are only one part of the story. The other part is the arithmetic of power in the regions and between the regions.

The tragic consequences of the inter-ethnic conflicts caused the Caucasian elites to appeal to Moscow for mediation. However, they soon found out that asymmetric arrangements were a favourite tool in the hands of the Moscow politicians. Some of the North-Caucasian republics were liked better by the Kremlin than the others. Ingushetia, for instance, which demonstrated its loyalty to Moscow by not following the Chechen path, eventually felt discriminated during the conflict in the Prigorodny district and has criticised Moscow ever since for taking the side of the Ossetians while enforcing a military administration which was supposed to be neutral.

Still, the asymmetry in the region did not acquire disastrous proportions. For political reasons Moscow felt obliged to reward its historical allies and the most loyal communities in its southern part. The economy, however, left enough room for manoeuvre through compensations. Each leader was allowed to choose the most appropriate strategies suited to the conditions in the respective region.

### a State "private" initiative

Which were the methods used by the newly created national elites in order to increase the living standards of their communities? Quite surprisingly, some of them adapted very quickly to the new circumstances by implementing tried and tested market economy instruments. Others made use of their strategic location. Others yet used their connections abroad for getting investments and boosting commerce. But let us see how survival strategies worked in real life.

The President of Ingushetia, Ruslan Aushev, gained a lot of praise not only for his moderate conduct during the conflict in the Prigorodny district, but also for his inventiveness and perseverance in solving the economic problems of his tiny republic. Following a period of shuttle diplomacy with Moscow, the Federal Government granted Ingushetia the status of Free Economic Zone. In fact, this economic formation resembled much more an off-shore zone, which can be easily understood. What company would make significant investments in an area harbouring around 60,000 refugees and where a new conflict could flare up at any time? The solution: companies registered in Ingushetia

but functioning in Moscow or elsewhere in Russia were given huge tax-exemptions. Part of the resulting incomes filled the coffers of the republic. An ideal environment to make financial deals. Incidentally, President Aushev is rumoured to have very good connections within the financial world in Moscow. He is said also to own shares in a giant petroleum company with interests in the Caspian region. But it is not our aim to assess the personal fortune of the Ingush President. What *does* matter is that by pursuing a responsible and consistent economic policy Mr. Aushev has managed to preserve stability in the republic and to increase the wealth of his co-nationals.

The most visible evidence of the Ingush President's successful economic policy is the new capital Magas, some 15 km from Nazran. An elegant palace, built by a Turkish contractor rises in the middle of nowhere, showing the increasing power and wealth of the newly created Ingush national elite. For the time being, the capital city contains only the President's residence, but offices and housing for the Government are also being built. By decreeing a new capital and building a palace, Mr. Aushev also solved a legitimacy problem for himself and his government. The Chechens and the Ingushs are the only peoples in North Caucasus who have no aristocracy. While the Chechens made their own bid for independence, Mr. Aushev seems to have found a shrewd solution for his legitimacy as a president and for the creation of an Ingush national elite: the attributes shape the identity.

Moving along an east-to-west axis, North Ossetia comes next. The oldest and the most loyal partner of Moscow in North Caucasus, North Ossetia more than once reaped benefits from its geo-strategic location and Christian predominance among its population. Vladikavkaz, its capital, is a large city by Caucasian standards. During the Soviet era, it received significant investments. Large factories were built on its outskirts, the town grew continuously, military facilities were constructed.

The importance of North Ossetia for the federal centre increased exponentially after the emergence of three independent states on the southern side of the Caucasian chain. The only two access routes to Georgia and to the Russian military bases in the republic run through North Ossetia. The military base in Mozdok, a small town in the northern part of the republic, became the headquarters of the offensive operations against Chechnya. North Ossetia benefited not only from the side effects of a huge military presence on its territory, but its elite acquired the key for the most cost-effective and profitable business in North Caucasus. The key lies not far from Brussels, in the harbour of Amsterdam. Freight containers filled with alcohol slipped into the Russian Federation, with virtually no taxes paid, from Amsterdam by sea to the Georgian port of Poti, then further, via the Georgian Military Highway and Vladikavkaz. At a certain moment, the Russian media estimated that the Ossetian alcohol accounted for around 50% of the available raw materials on the market for the production of alcoholic drinks in Russia.

The route seems to have been closed for the moment, but it functioned just long enough to create the starting capital for the local businessmen. Some unofficial figures estimated that the profit rate of that business was around 100% at the beginning, then dropped to

10-20% after its legalisation. That is still a satisfactory figure for a region where money does not fall from the skies.

Moving on to the east, we find Chechnya, the most troubled republic of the North Caucasus. The economic incentives for the Chechen independence are often underestimated. Being a nodal point for transit from Russia to Azerbaijan via Daghestan in terms of road, rail and pipeline transport, Chechnya might have become a flourishing place for the freight and passenger transport business. Instead, the Chechen gangs scared everyone away by robbing the trucks and trains transiting Chechnya, by frequently closing the pipeline Baku-Grozny-Novorossiisk, and by generating an overall feeling of insecurity. During the 1991-1994 period, Chechnya became a place for all kind of illegal economic activities, such as oil theft, bank fraud, transit robberies, smuggling, and many more. After the first Russian-Chechen conflict, the main source of income for the Chechens should have been the war reparations, in accordance with the agreements that put an end to the fighting. Instead, not only was the Chechen economy left in ruins, but the only things provided by the federal government were some pension payments, free electricity and gas and tiny financing for a few reconstruction projects. Even the state pipeline monopoly Transneft ignored its obligations to pay royalties for the transit of oil through Chechnya. Under these circumstances it is no wonder that the main sources of income for the Chechens became the kidnapping business and the acceptance of the Wahhabyte emissaries, which was generously rewarded with funding from abroad.

Daghestan has won the reputation of the poorest among the North Caucasian republics. Daghestan has an extremely complicated ethnic composition. Small peoples and nationalities (up to 5000 people) are trying hard to make ends meet alongside larger peoples. The national mix is also reflected in the State Council, the main ruling body of the Republic, where representatives of the 14 “main” peoples of Daghestan meet to decide which share goes to which part of the population. Daghestan would certainly win the first prize in a contest for the most subsidised region of North Caucasus and a leading place among the regions of the Russian Federation. More than 80% of its revenues come from the Federal budget.

Moving again westward, the Republic of Kabardino-Balkariya seems to be doing quite well, given the circumstances prevailing in North-Caucasus. No ethnic conflict erupted here in recent years, and the political elite seems to take good care of the law and order. Kabardino-Balkariya remains the most important manufacturing centre of the region, even though many of the industrial facilities there are no longer functional. The republic still receives some subsidies. The food industry has been entirely privatised, while the tourist facilities have only some 25% occupancy rate. Nevertheless, the republic seems to have benefited from the pan-Turkic policy of the Ankara Government. The Turkish investments there, especially in small and medium size enterprises, are quite significant. The main areas are construction materials, textile and leather industry, alcoholic beverages and mineral waters, etc. Research activities at the Nalcik University are entirely financed by partner universities from Turkey. The explanation is that both the Kabards and the Balkars are regarded by Ankara as having common roots with the population in Turkey itself. The emigrants originating from the republic render

considerable financial assistance. Members of the diaspora in Turkey, Germany, Belgium and Syria are regularly sending money to their relatives in the homeland.

Karachai-Cherkessia is mostly an agricultural republic, with a considerable part of the economy still subsidised by the Federal budget. After the command system in the economy collapsed, a large part of the native population created their own small farms, using extensive methods of production. The demand for pasture lands increased with the amount of livestock, and it gradually became a political issue. To the present day, the redistribution of lands within the republic is one of the problems that has contributed to the political conflicts in Karachai-Cherkessia.

The seventh of the North-Caucasian republics, Adygeya, is also relying on subsidies and agriculture. The conditions for agriculture here are by far the best in Caucasus, as Adygeya acquired quite a large territory of fertile lands from Krasnodar region. With the native population constituting a minority of 10%, Adygeya can hardly be called a national republic. The economic problems here resemble more those of the neighbouring Krasnodar region.

To conclude, state entrepreneurship varies from republic to republic. Some of the leaders proved very proficient in exploiting the arguments of their strategic location and loyalty to the Federal Government in Moscow, obtaining not only subsidies, but also the blessing of the Kremlin for a more or less independent economic policy. Other regional leaders were not that fortunate. In general the republics where the local leadership enjoy strong support from the population--that is Ingushetia, North Ossetia and Kabardino-Balkaria--are dealing better with their economic problems, while Dagestan and Karachai-Cherkessia, where the local power is not so strong, face more serious problems. The disastrous economic situation in Chechnya is mostly the result of the 1994-1996 war and the lack of dialogue between Grozny and Moscow.

#### b Private entrepreneurship

However resourceful the provincial leaders may be, they cannot replace entirely the traditional welfare system in the Caucasus. Family leaders have always played an overwhelming role in supporting their smaller or larger communities. It is a question of responsibility and pride for the Caucasian men to make every effort in order to ensure a decent existence for their relatives. To the present day the state cannot provide enough for the ordinary people. Of course, state entrepreneurship, which we discussed earlier, involves quite a large number of people in an effort to put into practice the more or less legal economic initiatives of the political elite. It is obvious, though, that they are a minority rather than a majority, and a large number of men have to find their own ways of becoming the breadwinners of their families.

Private economic activities in North Caucasus can be classified from a legal point of view and from a geographical point of view. The geography of the Caucasian private initiative is not at all tied to the homeland. Large numbers of successful businessmen are acting in Russia, as well as in other CIS countries and even in Western Europe. From the legal

standpoint we can categorise the economic activities as: entirely legal, the so-called shadow economy, and criminal activities, such as racketeering, kidnappings, etc.

The legal private economic activities in North Caucasus are generated by the privatisation process, which is taking place in several republics. The food processing, textile and leather industries, construction materials, bottling of alcoholic and non-alcoholic beverages, as well as an important number of services have been entirely privatised and account for an important part of the incomes in the respective republics.

But the Caucasian natives have been successful in establishing legal businesses in Russia and the CIS states, too. In general, the starting capital was generated by illegal activities, and many of the former Mafia members have transferred their assets into the legal sphere. Trade and commerce, finances and services, those are the main areas of the Caucasian businessmen. Moscow is a major centre for them, given the huge market potential, the established Diaspora and their potential influence in the Federal ruling bodies. Another major region for their activities is southern Russia, especially the regions neighbouring or close to North Caucasus: Krasnodar, Stavropol, Volgograd, Rostov, etc.

It is generally difficult to draw a neat line between the legal businesses and the shadow economy. The latter can be anything from tax evasion to establishing unregistered facilities for bottling alcoholic beverages. Those activities spread on a large scale in the republics of the Caucasus as well as in other parts of Russia, and the Caucasian natives are by far not the only ones involved in it. In North Caucasus itself the shadow economy is functioning with the benediction of the political elites, who understand the heavy burdens of doing legal business in Russia, be it the overwhelming taxation or corruption and malfunctioning of the administrative system. Here the racketeering is relatively low because of the family and clan connections that exist between politicians, businessmen and the law-enforcing bodies.

On the contrary, criminal activities in which Caucasian nationals are involved are quite numerous in other places in Russia and the CIS. It should be emphasised from the start that native Caucasians are only a part of the plague that is ravaging the Russian economy. For many years they have been disputing their spheres of influence with the Russians and other nationalities in Russia. Just a few words about the areas of their rule. Caucasian natives control to a great extent the open markets in Southern Russia and in Moscow, a great deal of the retail commerce, they are involved in financial deals in Moscow, many have tried their luck in the entertainment industry. Chechen gangs control a large segment of the oil retail businesses in Southern Russia. Of course, the kidnapping business seems to be their speciality. But these are only a few examples of criminal activities. The spectrum of the semi-legal and illegal activities is so large in Russia that it cannot be displayed within the narrow framework of this presentation.

### **3. Conclusions**

We have seen that the strategies for survival in North Caucasus are differentiated from republic to republic. Politics still play a major role in the distribution of resources among

the republics as well as inside each territorial unit. The relations between the local political elites and the Federal centre are overwhelmingly important. Not only do they pre-determine the allotment of the budget expenditures, but they are also crucial for the degree of freedom that every regional leader gets for implementing his own economic policies.

We have seen also that some republics have been more successful in making ends meet than others. Ingushetia, North Ossetia and Kabardino-Balkariya are at the top in terms of economic achievements. Incidentally, these republics have strong elites, while the leadership of the less successful Dagestan and Karachai-Cherkessia is not completely in control of the situation.

Perhaps a smaller degree of political involvement in the economic problems can be witnessed in the illegal sphere, in the so-called shadow economy. Illegal business is undoubtedly not politically correct, but we have to remember that even illegal profits feed the numberless relatives of those involved in it.

The Caucasian traditions demand that every man should take an active part in providing his relatives with the necessary resources for living. That is why we have in this region a double welfare system: the support of the state, which is very modest at the present time, and the active involvement of the male part of the population in one form or another of economic activity.

History and the memories of the most remote and more recent past play a very important role in the behaviour of the communities and their leaders in North Caucasus. We can see that each republic has tried to pursue its own way of improving the situation. Horizontal integration is not possible, yet and the prospects for co-operation between republics, which still have territories and questions of Caucasian pride to dispute among themselves, is also a distant prospect. Still, when it comes to economic survival, the inventiveness of the peoples living there is remarkable. The economic revival of North Caucasus, in each and every republic, will certainly have a positive impact on the political situation in the area.

Let me suggest some possible steps for the improvement of the economic condition in the area.

- Since no horizontal integration is possible yet, each republic should enjoy a separate “special” status, in order to make use of its existing assets, be it oil, other natural resources, strategic location or tourism.
- The vertical welfare system with the state and the family heads being the main providers of well-being should be improved.
- The national elites should be given the entire credit of Moscow, also in the sense of key-keepers to the economic resources.
- The Federal Centre should improve its mediation policies and try to find common interests among the regions. Vertical subordination is good, but a little bit of shuttle



diplomacy between the republics, especially those affected by conflicts, may prove even more beneficial.

- Since Russia seems very jealous on any attempt by the international community to take a look in its southern yard, perhaps the wisest thing to do would be to learn from the positive experience of the few foreign investors in the area, especially those from Turkey. Programs of reconstruction and reforms in this region fostered by the international economic organisations and co-ordinated by the Moscow government may actually work. Private investments, on the other hand, need no co-ordination. Little by little, they can become the most effective instrument for the reconstruction of normal economic life in North Caucasus.

The economic strategies for survival in North Caucasus reflect the general situation in the area. The ingenuity of the local elite and the growing business community is remarkable and has led to a relative wealth of at least a part of the population. Still, any sign of sustained development is far remote, and the problems of securing the population of North Caucasus an economic future remain open. In North Caucasus, there is a lot of talk about the ethnic and religious components of the conflicts, active or dormant as they are. We have to bear in mind, however, that economy is crucial for the resolution of the conflicts and for the stabilisation of the area. Something must be done, and must be done until it is not too late.

## The Caspian Dilemma: Prosperity or Conflict?

Thomas Waelde, Sergei Vinogradov, Armando Zamora<sup>1</sup>

### Abstract

*Caspian oil & gas were, until the recent oil price decline, seen as the next Kuwait. We are unlikely to see another "Gulf", but the crux of the matter is transit and political risk. Caspian oil & gas is disadvantaged because its natural markets in the region and in Eastern Europe have low demand, which cannot be paid in US \$. All other markets are far away, adding to transit cost. Moreover, all pipeline routes go through problematic areas. The East-West Baku-Ceyhan corridor is uncompetitive. The Russian route, through already existing Russian pipelines, is most easily available. But the Chechen situation, pipeline quality and the monopoly power of Gazprom and Transneft are obstacles. China needs oil and gas but it may be unable to absorb the additional cost of pipeline imports/transit from the Caspian. Finally, all current transit options have the "Iranian option" overhanging them: If US sanctions against Iran abate, which is possible, would then all planned heavy-investment projects in other pipelines become uncompetitive? Experience shows that pipelines in political waters - e.g. the Middle East - do not do well. The Caspian governments have not learnt to manage well their relations. The political risks involved imply that it would take a brave investor and banker who is ready to absorb the multiplication of the many political risks in the region. The legal status of the Caspian Sea remains unsettled, and experience shows that an unsettled legal status discourages investment in disputed areas. The dispute is as yet unsettled, though Russia (and Iran) seem to be moving closer to some division of at least the subsoil oil & gas areas. What is at issue is a contest between two modes of thinking: The geopolitical philosophy versus the logic of global markets. Companies, subject more to capital markets pressure than to state's grand designs, prefer that the logic of the market prevails. Russia may benefit the most from the market logic. If it exercises its power, it will do so at its own great cost. If it accepts the logic of global markets, it will benefit from prosperity in the Caspian. The issue for all these countries is if they are ready to focus on how to become prosperous, rather than how to maximise their respective influence. Prosperity requires recognition, penetration and acceptance of the rule of law in internal relationships, with the oil companies and with each other. The EU is perhaps best positioned for this. It has no major geopolitical ambition nor real muscle, but it seeks the stability on its Eastern border, in commerce and energy supply. This led to the 1994 Energy Charter Treaty with its Art. 7 guaranteeing transit of energy. Its technical assistance programmes are large; it has developed a tight network of economic treaties with all participants and it has no serious problem with anybody. It should now support all actors to move from the field of war to the arena of lawyers, procedures and negotiations. We need to help the Caspian region to develop good governance, both internally and in their international relations.*

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## **1. Geopolitics of the Caspian**

The oil and gas resources in and around the Caspian Sea are viewed by most of the Caspian states as the foundation for future wealth, influence and power. These views are shared by many international oil companies which have invested heavily, by states keen on exploiting their geographical position to obtain oil and gas transit income, by consumer states including the EU, and by geopolitical players such as the US, Russia, Iran, and Turkey. Often exaggerated views on the oil and gas potential inform national and international politics in the region and have concentrated the attention of the main producer countries almost exclusively on the goal of obtaining prosperity through petroleum development. Similarly, such perceptions influence the foreign policy of the main players, with traditional geopolitical power politics complemented by economic objectives, e.g. investment opportunities for national companies. Interstate (Azerbaijan/Armenia) and intrastate (Georgia, Tajikistan, Turkey, Russia) conflicts combined with the intervention of outside players, interact with the oil and gas interests. Insecurity increases investment and transit risks, and oil and gas income is hoped, or feared, to boost the strategic position of the owner states in such conflicts.

## **2. The Caspian as an Oil Province: A Realistic View**

Some over-optimistic assessments of both the oil and gas reserves and the financial benefit from production/export have increased the expectations of producing countries and their populations, the anxieties of non-producing neighbours, interest of potential transit states and the competitive sentiment of countries with interested companies. In fact, the Caspian is unlikely to become, as sometimes hoped, a new “Gulf”. Its resources are comparable to those of the North Sea, with perhaps 2-3 % of the world’s production. In addition, the production costs are much higher than in the Gulf and most OPEC countries, although lower than in the North Sea and new competing projects in Russia. The transportation costs (even the pure technical ones) are higher than for most competitors. The markets for Caspian oil and gas should be mainly in the region - but these most likely consumers at this time show depressed demand and can not pay; in the next circle are the markets in Eastern and Western Europe.

These conditions make Caspian oil and gas vulnerable to the fluctuations in oil prices. In 1998/1999 the oil price moved to very low levels (US\$ 10 per barrel), with a subsequent recovery to around US\$ 20. Companies, at present, base their investment decisions on prices around 15 US\$. Low levels (i.e. below US\$ 15) are likely to have the following impacts:

- The massive investments anticipated, in particular by the Caspian governments, are not likely to materialise. Companies will drive down and stretch their investment programmes, shift from expansion to “harvesting”. Under “normal” conditions with oil prices at US\$ 15 and political and transit risk not higher than in the major competing regions, one should expect an annual investment of 2-3 billion US\$. This reflects pro-rata the ratio of Caspian/world reserves to world oil

and gas investment. Much of the high investment figures in circulation are not unconditional or irrevocable investment commitments that are legally binding as of now, but rather estimates of investment that might be made over decades in case positive assumptions materialise. If included in an agreement, they are as a rule hedged by many conditions stretching over a long period of time. Many such conditions are, as all parties realise but do not say, unlikely to ever be met. They are in many cases a political and commercial make-believe for the political convenience of governments.

- A low oil price discourages frontier and high-risk investment, makes financing difficult and imposes a slower and more incremental investment rhythm. With the prospect of high profitability reduced, and market risks being added, projects can not sustain significant exploration.
- An oil price that is lower than assumed in original studies and contracts leads inevitably to corporate tactics to gain time while maintaining control over acreage: protracted studies, long negotiations, reference to never-ending governmental and intergovernmental discussions, but without actually committing investment.

To sum up, it is extremely difficult to ascertain or predict what reserves there are in reality. Only continued exploration, itself dependent on geological and economic assessment, can do this. Nor can we predict the oil prices of the future. The most recent experience – with extreme downward volatility of oil prices—casts a shadow over expectations of large and rapid exploration and development. But such development is burdened by political and transit problems - a higher oil price can help to surmount them more easily, a lower price creates a check on greed and geopolitical ambition, and sharpens the profile of the economic and technical logic.

### **3. Legal Status and Division of the Caspian Oil and Gas**

There is no clear rule for defining the legal status of the Caspian sea and dividing the underlying oil and gas resources among the coastal states. Neither previous (USSR-Iran) treaty practice (binding upon the successor states of the USSR) nor international law of the sea (which is not directly applicable to this situation) provide an unequivocal answer. No generally accepted rules on the status and partition of international lakes currently exist. In this situation, one needs to appreciate that the various legal strategies and concepts used express foreign policy and petroleum strategy objectives. Russia, which relies on the idea of the Caspian as an international lake and on interpretation of the earlier agreements between the USSR and Iran, has used the “common resource” concept to oppose the unilateral division of the Sea by the principal oil and gas countries (Azerbaijan and Kazakhstan). The latter invoke the analogies from the law of the sea (the “zones of national jurisdiction”, method of “equidistance,” and so forth) to divide the Caspian among the coastal states by creating their national sectors.

Oil and gas development requires or is at least much facilitated by certainty in the issues of jurisdiction. Investment is discouraged if severe jurisdictional disputes, in particular involving powerful countries, undermine the security of title issued by one

of the state parties to such disputes. Russian legal argument aims at both reinforcing its involvement in the development of Caspian oil and gas, and at precluding the US, its present geopolitical competitor in the area, to establish its dominance in the region.

The intensity of the legal (and thereby political and commercial) controversy has somewhat abated. There is obvious Russian interest in exploiting the apparently emerging oil and gas potential in the northern part of the Caspian. Some Russian oil companies have been won over by participation in Azeri offshore production-sharing contracts in consortia with Western oil companies. Similarly, the Russian interest in maintaining its political influence in the “near abroad” is now challenged by more modern economic interest. Impoverished neighbour countries kept on some form of post-colonial leash provide little economic benefit by trade and investment. Economic development in the Caspian states at least opens an opportunity for trade - due to reasons of language, culture and proximity, and possibly also for investment by Russian oil and gas companies. The 1998 Russian-Kazakh Agreement, under which the seabed is divided between the states concerned while the waters remain the common property, demonstrates the shift in the Russian position.

The most likely solution will be the mutual recognition of extended territorial waters, or other similar zones, under full coastal state jurisdiction, and the division of the Caspian seabed and its subsoil oil and gas resources between the riparian states. The Sea itself, in particular its marine living resources and other environmental concerns, may lend itself more easily to joint approaches and regional co-operation. However, jurisdictional disputes between the coastal states are likely to remain for a while. These new states are not accustomed to peaceful settlement of such disputes by negotiation. They can not afford to be seen to be giving in on territorial matters. International customary law, as manifested in the decisions of International Court of Justice, is not precise and specific enough to provide an easy and clear indication of where and how borders should be drawn. Existing (for example between Azerbaijan and Turkmenistan over the Kyapaz/Serdar deposit) and potential jurisdictional disputes are bound to undermine the security of any title granted by governments in a disputed area.

One solution to be considered is the use of “joint development” regimes as already practised in the North Sea (unitisation of the Frigg field) and in disputed areas between Indonesia and Australia, Malaysia and Thailand, and Japan and South Korea. There are two types of regimes that are relevant. The first deals with a petroleum field straddling the agreed and undisputed delimitation line (“Frigg-Agreement” between Great Britain and Norway), which is designed to facilitate its efficient exploitation. Licensing and rules are established jointly, and revenues are usually shared in some ratio reflecting the estimates of oil reserves contained in the parts of the field belonging to the two countries respectively. The second is mainly a device to allow development of oil and gas resources in disputed areas without the political cost of settling the border definitively. Here, a joint regime for licensing, regulation and

taxation is set up, and revenues and control are shared - sometimes with variations such as granting each country a predominant role in one part of the disputed area. It is therefore a very pragmatic way of avoiding protracted boundary negotiations and allowing the development to go ahead.

To sum up, the not yet resolved legal status of the Caspian is a serious obstacle to full development of its oil and gas resources (and development of an effective environmental regime) under “normal” circumstances. International law does not have a clear and specific solution at hand, but it provides a full range of concepts, precedents and procedures, which have not yet been fully utilised by the Caspian states. Such avenues as the submission of disputes to the International Court of Justice or international arbitration, and legal methods such as a Joint Petroleum Development Agreement are available and tested sufficiently elsewhere.

#### **4. Transit**

Oil and gas development in the Caspian region is presently largely pointless without long-distance transit. Local and regional markets are all affected by the economic collapse following the demise of the Soviet Union and can contribute neither sufficient demand nor ability to pay to finance the large-scale investment. Access to markets - mainly in Central and Western Europe and Turkey - is therefore the key to development. These transit requirements raise two issues:

- First, long-distance transit adds appreciably to the final costs of hydrocarbons. The lower the expectations about future oil prices, the more the transit requirements will obstruct the commercial viability of investment. Transit infrastructure also requires massive front-end investments. Transit costs include both “technical” costs (construction and operation of pipelines and loading facilities) and “transit fees” charged by transit countries. Transit fee or rather transit rent is another project risk. The limited ability of countries in the region to negotiate and maintain stable reciprocal arrangements raises another hurdle for setting up effective transit arrangements.
- Second, transit into most of the available directions is fraught with substantial political risk. The East-West corridor solution (over the Caucasus, through Georgia and across the Caspian and Black Seas) raises serious legal, political and environmental problems. Interstate and intrastate conflicts in the Caucasus and in Turkey pose a serious threat to secure and unimpeded transport of hydrocarbons. Pipelines through Iran - technically and economically perhaps the best option - confront the US policy of sanctions, whereas pipelines to China with its large market and a relatively risk-free transit area are too long and therefore possibly prohibitive.

The history of Middle East pipelines illustrates that few pipelines have survived and prospered in politically volatile areas. Successful pipelines – Trans-Mediterranean (Algeria-Tunis-Italy) and Maghreb-Europe (Algeria-Morocco-Spain) seem to be based on a depoliticised environment, private law models and limited state involvement. Pipeline projects can, under favourable economic circumstances, accommodate, deal with and manage the political risk of an individual country. However, the pipelines from the Caspian will have to deal with multiple interstate and intrastate risks. It seems as the least expensive and least risky pipeline projects will be completed over the next ten years, possibly with considerable delay along with equally slow oil and gas development.

Considerable US and Turkish pressure for the longest and most expensive transit route - to Ceyhan in the Turkish Mediterranean - implies that it may not commercially feasible. A reasonable assumption is that the higher the political pressure, the greater the economic deficit of such projects. It is therefore hard to see how companies operating in a now very competitive environment can accept – without a facility to re-allocate such risks - the alleged imperatives of home state foreign policy rather than the commercial logic of the global markets.

It is conventional wisdom (and so argues Thomas Stauffer in the July 1996 issue of the OPEC Bulletin) that Russia is likely to exploit its geographical position as the most important transportation route at the moment as well as its remaining post-imperial leverage. Perhaps this is too simplistic. There seems to be a major dilemma in the Russian oil & gas and foreign policy communities, with forces adhering to traditional influence-seeking foreign policy vying for supremacy with the more modern forces oriented rather towards economic logic. The psychological challenges of digesting decolonisation for Russia may be similar to those faced by the UK and France – where it took decades to start to accept former colonies as truly independent countries. The more open policies of the Russian petroleum pipeline monopoly “Transneft” and some Russian petroleum companies, efforts to achieve at least some success of the Caspian Pipeline Consortium project to bring Kazakh oil to the Black Sea, progress with the gradual resolution of the property regime of the Caspian Sea and severe competition with Turkey for the main pipeline route for Azeri oil illustrate the weight of the commercial forces . In fact, Russia is as dependent on the good will and economic sense of other transit states, for example Ukraine and Latvia, as the Caspian states are on Russia.

The crucial importance of transit has encouraged the search for stronger legal instruments to facilitate transit and reinforce the security of pipelines and transit arrangements. The key legal instrument is the 1994 Energy Charter Treaty. First, it provides for extensive protection of property and contractual rights of foreign investors, bolstered by a possibility of direct investor-state arbitration. Second, it includes a novel obligation of member states to facilitate transit, abstain from politically motivated disruption and, within capacity, provide access to pipelines. This

multilateral treaty provides assurance beyond traditional guarantees by bilateral agreements. Currently, there are negotiations to expand transit provisions of the ECT into a special multilateral binding instrument.

Legal arrangements alone are not sufficient to ensure that states will respect transit or that security of pipelines will be guaranteed in all circumstances. However, with the expanding availability of legal precedent, frameworks and procedures, there is the prospect that the rule of law in relations among the Caspian states and between these states and private companies will gain ground and improve the legal and political environment in the region.

## **5. The Future of the Caspian Oil and gas – Signals to Watch**

The future development path of the Caspian region is so clouded with uncertainties that no simple forecast seems possible. The way to deal with this is to identify a number of “signals” which indicate and support either a positive path – towards investment, contribution to economic development and prosperity – or a negative path, towards stagnation and economically destructive political intrastate or interstate conflicts. Each and every signal may not necessarily determine which path is taken, but taken together they point toward a likely direction.

Positive signals for Caspian oil and gas development are:

- Oil and gas prices at high levels. This would provide a profit margin to counter the additional risk premium required. Apart from their role in technical and financial calculations, high oil prices have a way of making investors forget or disregard high political and transit risks – an element of mass psychology is always inherent in investor behaviour.
- Shifting Russian policy from the “Great Power” syndrome to commercial common sense. This would help the new states of the Caspian to move as well from instincts of self-preservation to prosperity.
- Significant discoveries of reasonably low-cost oil and gas fields. This would make the Caspian attractive for investors again, in particular if it coincides with a high or reasonably high oil price.
- Willingness of China, the US and Turkey to pay for their well known “strategic” interests by assuming cost risks of pipeline infrastructure, cost overruns and external and internal security risk. This would diminish the risk premium required for Caspian projects.



- A clear transition towards “legal” and civilised behaviour among the states concerned. This would include acceptance and practical implementation of the rules of the game established by the Energy Charter Treaty, investment protection treaties and GATT/WTO. In this case long-term investment and trade opportunities in the Caspian region will increase and become practically exploitable.

On the other hand, “warning signals” include:

- Political instability and insecurity in the main producer and transit countries. Inability to manage the political succession and neighbourly wars will enhance the risk and thereby cut-off investment projects except in high-profit situations.
- Resumption of a “Great Power” game with intervention in producer and transit countries. This will inevitably lead to “dead pipelines”, large losses and the unwillingness of investors and banks to re-engage themselves financially. If a major pipeline project goes definitively sour for reasons of competing politics and insecurity – we have many cases of this in the Middle East – then new project investment is unlikely to become available for quite some time again.

The oil price is a permanent and decisive factor in these calculations. While it is wrong to always look at today’s price as the indicator of what investors do or should do, it is a potent signal, and basically out of the hands of the Caspian states. Such unrelated events as the fluctuation of energy demand in Asia, the opening up of Kuwait and Saudi Arabia to foreign investment, a full-fledged rehabilitation of Iraq’s oil potential, ability of OPEC and other producer countries to agree on and stick to quota restrictions can make or break Caspian projects.

## **6. Can the Caspian Region Move towards Good Governance**

The perception that a large resource endowment is available has always fuelled political tensions over distribution of property and benefit from resource development. It could even be argued that the absence of a large resource endowment is more conducive to peace and prosperity than its presence in the contested political environment. But the oil and gas resources are there. Their exact dimension is not yet known, but there is a wide perception that they are quite substantial, with the need to assess their possible impact. The first requirement is that the property rights to such resources must be unambiguous, determined by agreement. The second requirement is that the development and transport/transit of such resources needs an equally clear legal framework to make them work.

The new Caspian states are currently struggling for preservation internally and externally. There is little tradition of national or international law or culture of contractual commitment. The states and their political and cultural elites are beginning to learn how to understand, formulate and utilise the legal procedures implicit in modern statehood both to deal with internal and external conflict. If there is something

the international community – i.e. the at present prosperous and peaceful Western states – can do it is to support, persuade and pressure these states and their societies toward the habits of living under the rules of civil society both in internal and international relations. Such a transition can not take place overnight. It requires a slow process of nurturing and habituation, informed by example, developed in the end internally and reinforced by success. There is little future for big projects if they are built on the sand of instability.

The oil and gas endowment of the Caspian, whatever its contribution to tension in the first place, lends itself to the deployment of the instruments of law. It requires agreements between states on demarcation, distribution and legitimisation of property rights. The method of joint petroleum development – postponing the definitive border delimitation by a joint system for collaborative licensing of disputed areas and distribution of the revenues – is particularly suitable for developing technical and legal collaboration.

An oil and gas development contract also forces the country to understand the logic of technology, finance and markets, and to import the standards of the oil industry, including on safety and environmental protection. Similarly, the oil and gas agreements between investors and a host state teaches it the need to respect contractual commitments and be seen as respecting them. In short, while oil and gas reserves can incite regional tensions, the logic of their development also has a powerful effect in teaching the virtues of law and contract. Similarly, the imperatives of oil and gas development can have a civilising effect on neighbourly relationship. The impact of disputed borders and unresolved transit, of closed markets and transportation routes, of military threats and externally fomented internal subversion usually leads to a lose-lose situation. Resolving such disputes means that the oil and gas industry can pay a peace premium. So international good governance and economic development through the petroleum industry usually go hand in hand.

# **Caspian Hydrocarbons, the Politicisation of Regional Pipelines, and the Destabilisation of the Caucasus**

Terry Adams<sup>1</sup>

## Abstract

*Caspian Oil and Gas Reserves are both commercially and competitively viable for long term strategic supply to Southern Europe and the Black Sea. Critical pipeline capacity for regional export to these markets is already evolving to meet capacity demand. However recent politicisation of pipeline routes in the South Caucasus has seriously interfered with the ongoing investment process. The fundamental need for the private sector to underpin development and the political evolution of the region is emphasised. The strategic role and self interest of the EU is reinforced.*

## **1. Introduction**

Since the collapse of the Soviet Union there has been widespread comment and speculation as to the realities of Caspian Oil and Gas. It is questioned whether or not these resources can truly form the basis for future economic and political stability in the Caucasus. Much of the debate has focussed on the effectiveness of regional pipeline systems, both old and new; and the manipulation of these systems for regional advantage and political ends. Consequently, in this paper, we will look at the New Geography of Russia's 'Near Abroad'; within the context of independence being driven and maintained by the award of Oil Contracts. These inexorably tie to the segmentation of international political alliances and national foreign policy. The paper will assess the material threats we see to regional oil development; and whether or not these will deflect the positive economic changes that have already occurred over the past five years.

## **2. Caspian Oil Reserves**

There has been continued public speculation as to the realities surrounding Caspian Oil Reserves. Nevertheless the enthusiasm with which Western Oil Companies have competed for new Contract Areas in both the South and North Caspian, reflects their firm belief that these Caspian basins held substantial and accessible upstream reserve potential. This was done not with emotion, but after considerable technical due diligence.

The attraction of the Caspian focussed on Proven Oil Fairways; Plio-Pleistocene palaeodelta systems to the South, and Palaeozoic reef complexes to the North. Both oil provinces had extensive databases, developed over a considerable period of time. The petroleum geology of the Caspian is particularly well understood. The area includes

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many proven super giant fields; and there are a large number of known untested virgin structures, of similar dimension. These were favourably located within the hydrocarbon fairways, and were available for licensing. This fact drove the early Caspian oil boom.

But the question must be asked, how did this investment opportunity arise? Up to the collapse of the FSU, the Caspian was inaccessible to Western investors; so the answer to the question is two fold. Firstly, Soviet technology imposed operating water depth constraints, that had already been breached in the West. For conventional field development the Soviet's could not access structures in deeper water. Hence the 1994 AIOC investment in the Azeri Chirag Deepwater Gunashli Field in offshore Azerbaijan. Secondly, in the mid 70's, a strategic policy decision was taken in Moscow to redirect Russian oil investments from the Caspian to West Siberia. Oil development in the Caspian declined, and consequently many world class prospects remained untested.

Detailed analysis of available databases confirmed that some 17.5 billion barrels of recoverable oil had already been found within the South Caspian. That a further 20 billion barrels should be found in Azerbaijan and Turkmenistan, in already well defined untested traps, is still a realistic expectation. To put this into context, this YTF (yet to find) is an equivalent reserve level to the North Sea. This is replicated for similar geological reasons, in the North Caspian Basin. Here numerous untested Palaeozoic reefs have been identified on seismic; as Tengiz Oil Field look alike. Tengiz itself holds a proven oil reserve in excess of 8 billion barrels. So again it would be surprising, if a further 20 billion barrels YTF would not be found along this prolific oil trend. Two critical exploration wells were scheduled for 1999 to test these fairways. In the South Caspian Shah Deniz found a mega-giant gas field with condensate, in offshore Azerbaijan. The results from Kashagan now drilling in offshore Kazakhstan are not yet known. But Caspian exploration still carries Geological Risk, and exploration drilling more generally fails than succeeds. Nevertheless, there is technical confidence that the Caspian should deliver a further YTF of 40 billion barrels; with an upside of perhaps 65 billion barrels recoverable. This projection is geologically sound, and reflects current common understanding in the Industry.

But these numbers are modest in comparison to much of what has been published in the press. There a YTF reserve of 200 billion barrels plus is still persistent as a projected number. This would place the Caspian on a par with much of the Middle East. It is equivalent to the reserve potential of Kuwait and the United Arab Emirates combined; and close to Saudi Arabia itself. Clearly this YTF prediction is flawed. Essentially, it arose in early 1995, from a Reserves Review commissioned by the US State Department, now held by the Department of Energy. It was compiled at a time of considerable geopolitical re-positioning by the United States within the Transcaucasus. The number so derived, primarily for political purposes, reflects the concept of an Ultimate Reserve, in which oil would fill every conceivable trap, with no exploration risk. This is commercially meaningless.

More realistic reserves projections have been promoted since inception of the Baku Oil Boom in 1995, of which the CIA were fully aware. Therefore with a Caspian reserve

potential of some 40 billion barrels, by 2010 a cumulative Caspian oil production of between 3 to 5 mmbd can be projected with some confidence. Cumulative production most probably will fall closer to the low end, even if there are no serious political dislocations in the development process. The Caspian will be an important player in international Oil Supply, but it will never be a future Global Swing Producer. That privilege remains safely entrenched within the Middle East. At best the Caspian in total will deliver no more than 3% to 5% of Global Oil in the coming decades.

Equally there has been much negative speculation regarding two failed exploration ventures in offshore Azerbaijan. The Karabakh Contract Area (CIPCO) of Pennzoil, and the Ashrafi Dan Ulduzu Contract Area (NACO) of BP Amoco, were both priority targets in an early drilling campaign. Located close to, but not on trend with AIOC, how could they have failed? The geology and geophysics of the Apsheron Sill is well understood. Plio-Pleistocene Oil Fields trend along the flank of this emerging basement ridge. Giant structural traps are ideally located to entrap oil migrating northwards from a deep basin centre to the south. However SOCAR geologists already knew too well that explorers should beware, if they went too far north of this critical edge. So a likely exploration failure was predicted, well in advance of any new drilling. This was the common view held by Azeri experts; which was shared by many Western experts too. But the structures were large and needed to be tested. Operationally they were simple to access. Consequently, the drilling of these two prospects has in fact reinforced the understanding of the South Caspian Geological Model, not undermined it. Rather than diminishing the offshore oil potential of Azerbaijan, these results have reconfirmed the exploration understanding that underpins South Caspian Reserve prediction.

But there are some hard facts to be faced. Offshore Exploration in the Caspian is commercially expensive. Oil reservoirs are complex and deeply buried. The Caspian seabed is active and unstable; and much of the prospective areas lie within very deepwater. Also within the geological section to be drilled above these reservoirs, zones of severe formation overpressure are frequently present, which challenge current drilling technology. Add to these the absence of effective infrastructure in the region, this then presents the risk investor with a considerable front end cost burden. Exploration well costs in excess of \$50 million are common. Consequently Exploration Failure Cost is high; typically \$150 million to \$200 million or more for an offshore Production Sharing Contract in Azerbaijan.

But correspondingly Finding Costs in the success case are low. This reflects the nature of giant oil field exploration, with mega-reserve potential. For the Caspian this translates into a Finding Cost of US 50 to 75 cents a barrel, which puts offshore Caspian oil potential to the forefront of international exploration. But this remains essentially an opportunity for 'Big Oil' only, who have the financial clout to tolerate the failure cost exposure involved.

### **3. Regional Oil Transportation**

The risk of not being able to transport Caspian Oil to market was, and still is, perceived to be the most significant business challenge for oil investment in the region. The extended delays experienced by Chevron in the evacuation of oil from Tengiz through Russia to the Black Sea, is a prime example. The creation of an effective regional pipeline by CPC from Tengiz to Novorosysk, was pending since 1992. It is now under construction, and should become operational in 2001. In the meantime Chevron maintains short term export routes for some 200000 b/d; using existing Russian rail transport; and by barge across the Caspian Sea to Baku, and then by rail through Georgia to Batumi on the Black Sea (60000 b/d). The new CPC line to Novorosysk when fully commissioned will have an eventual export capacity of 1.3 million b/d. This should then capture the bulk of North Caspian export; and serve Russian long term commercial and political interests in a material way.

As a result of the Chevron experience, in the South Caspian AIOC made export capacity to the Black Sea the strategic priority for its foreign investors, before offshore investments were made. Consequently in early 1996 pipeline transportation agreements and inter-governmental treaties were signed, firstly with Russia, and subsequently with Georgia. These allowed for the transportation of Azerbaijan Oil northwards to Novorosysk, and westwards through Georgia to Supsa; both oil ports on the eastern margin of the Black Sea. Azerbaijan oil was successfully transported through Russia in late 1997. But as a consequence of events leading to the Second Chechen War deliveries were interrupted, and eventually cut by mid 1999. The Georgian Supsa Line became operational in early 1999. This now provides the full 120000 b/d capacity needed for the initial tranche of AIOC oil from the first Chirag platform.

For the last three years some 60 to 100000 b/d of East Caspian crude has been successfully trans-shipped by rail from Baku to Batumi by Caspian Transco. Incremental Turkmen oil produced by LASMO and others from the Burun Field has been successfully transferred to the Tehran Refinery via the Iranian Neka Pipeline for Oil Swaps in the Gulf. The Neka pipeline has a current operational capacity of some 40000 b/d. Additional export capacity for South Caspian crude is available through the Volga Don Canal system which can take up to 60000 b/d (for summer operations); and by rail from Makhachkala to Novorosysk, also for some 60000 b/d.

Currently there is sufficient export capacity available to third parties for South Caspian oil. For the longer term, there are emerging plans for major regional export pipelines, which are the subject of heated debate. To the North Baku-Novorosysk via a Chechen by-pass, with a capacity of 1 million b/d; to the West (Baku Supsa – Baku Ceyhan) with an initial capacity of 1 million b/d, and to the South (NIOC) with a capacity of 350000 b/d. It is no longer a matter of if but when these pipelines will be built. The clear message is that once new oil is found and capacity is needed, expansion plans and new pipelines will follow. For the South Caspian herein lies the rub. The politicisation of pipeline routes are now in conflict with commercial realities.

#### **4. South Caspian Transportation Tariffs**

For existing Caspian export systems, market competition to capture export crude has already resulted in reducing transportation costs. Turkmen crude export can be used as an example as it employs multiple export options. Turkmen crude moves westwards across the Caspian to Dubendi (Baku), and then by rail with Caspian Transco to Batumi. For summer operations it moves north through the Volga Don system. Southwards oil moves to Neka for year round pipeline transfer to the Tehran Refinery; for a corresponding swap of equivalent NIOC export crude at Kharg. It should be noted that the following tariffs represent an inclusive transportation cost, involving both marine and land transits for a delivery in the Mediterranean. The Iranian Swap fee is for a Kharg FOB.

In 1998, the Iranian swap option gave the best tariff (\$4.9/bl). In 1999, rail transportation costs were materially reduced from Dubendi to Batumi and tariffs fell (from \$8.3/bl to \$6.50/bl); in response to market competition. Once export capacity is restored for the AIOC-SOCAR pipeline from Baku to Novorosysk; further downward market pressure should result (\$6/bl). Tariffs for Volga Don summer operations are also competitive (\$5.9/bl). All existing tariffs are clearly set above true cost, at a level which the market will currently bear. They can all accommodate price reductions.

To summarise; an average transportation cost for crude from the South Caspian to a Mediterranean Refinery can be set at around \$6.00 - \$6.50/bl. This as we shall see contributes to around half of the Caspian Development Cost of \$12.50 per barrel. Likewise transportation also represents a major charge against Cost Recovery (Cost Oil) within Production Sharing Contracts. This creates a major conflict of interest between the Producer and Transit Countries involved. The producer country makes its profit upstream (Profit Oil) and aims for minimal transportation costs. The transit country makes its profit downstream (Tariff), so wishes to maximise transportation cost. This was the challenge faced by Azerbaijan, Turkey and Georgia, during recent and procrastinated negotiations over future tariffs for the Baku-Ceyhan Pipeline. These have been set in principle at \$2.58/bl for land transportation to Ceyhan. This with a further 40 cents/bl for marine transit to the Mediterranean, gives an inclusive transportation cost for Baku oil of \$2.98/bl (i.e. roughly half of current average transportation cost). But these land transit costs include an interest charge for pipeline CAPEX . Once liquidated, land transit cost drop to \$1.15/bl; which should then deliver an inclusive transportation cost of \$1.55/bl from Baku to the Mediterranean. If achieved this would be dramatic. Nevertheless directionally South Caspian transportation costs should half in the coming decade.

But why should a Western export route for the South Caspian remain the predominant option, when there is an available alternative South through Iran? We have already seen that crude swaps with Iran is the cheapest Caspian transportation option to maximise net backs. The inherent cost saving that Iran itself obtains when Caspian crude is used to service their northern refineries, eliminates their own internal crude transportation costs, by not having to bring equivalent oil from Kharg. There is significant potential for Iran to reduce their swap fees further, and still maintain competitive advantage. But the crude volumes needed by Iran for swaps are strategically capped. It is significant that NIOC in

an international tender for a new pipeline from Nekka to Tehran, confined pipeline design capacity to 350000b/d. Such volumes of Caspian crude would the service approximately 50% of their own northern market needs. To become 100% fully dependent on Caspian crude would be strategically imprudent; and this is clearly demonstrated.

But to take far greater volumes of Caspian crude by pipeline to the Gulf for onward marine transfer to E Asia or to US West Coast would be commercially impracticable. This would introduce a transportation cost burden that could not compete commercially with far cheaper oil transportation of Caspian crude to markets in the South Mediterranean and Black Sea. Also Iran and other OPEC Gulf producers would not wish to see large volumes of Caspian crude enter their already congested seaway. But more importantly Iran would not wish to see their Asian markets undermined by Caspian crude. Swap volumes are not material, and have the advantage of falling outside of OPEC accounting. Therefore for sound commercial reasons Iran is unlikely to access more than 10 % of future Caspian production needed for swaps. Arguments for a main export pipeline through Iran to the Gulf shows that it is not a viable option. The heated political opposition to an Iranian MEP under ILSA and Iran Containment, is in fact irrelevant.

Detailed studies have already confirmed that the Mediterranean and Black Sea markets should have the capacity to absorb up to 3 million barrels a day of Caspian crude. Inherent Caspian crude chemistry is environmentally attractive to Mediterranean and Turkish refineries. It will displace supplies of less environmentally friendly crude from the Middle East and West Africa, on a fully competitive basis. The Caspian is essentially a global niche producer strategically positioned to service Southern Europe. This fact is not generally reflected in the current export debate , which still promotes the Caspian as a global Middle East alternative.

## **5. Oil Price and Commerciality of Caspian Crude**

With the serious collapse of oil price in late '98 and early '99 there was considerable speculation that Caspian exploration and development would stop. At that time the Brent crude benchmark hovered around the \$10/bl level. There were dire predictions that \$5/bl oil was near. For a variety of reasons for the past six months oil price has remained within a \$24-26/bl envelope.

Nevertheless comparisons of Caspian Operating, Development, and Transportation Costs with the North Sea and Middle East are revealing. Currently the built up cost per barrel for North Sea and Caspian oil are roughly equal (\$12.50/bl). Both compare unfavourably with the Gulf (\$2/bl). But the cost structure for the Caspian is fundamentally different from the North Sea. Two costs dominate the Caspian barrel; transportation (6.50/bl) and development drilling (\$3/bl). In the mature North Sea, costs are more evenly spread across the spectrum.

However given a reasonable degree of long term stability, Caspian transportation costs are likely to halve in the coming decade. Equally technology improvement should have a dramatic impact on reducing Caspian development drilling and well completion costs.



The Industry is still low on these learning curves. With the development of common infrastructure there will be further cost savings. By 2010 the built up cost per barrel for Caspian crude should fall to around \$8/bl real. The mature North Sea in comparison has already creamed these benefits; and costs there are likely to remain static or increase. Therefore as long as the oil price maintains a sustainable level of around \$15/bl or more, the Caspian will be profitable. It can support long term sustainable investment as a niche producer for the European market. Although Caspian Failure Costs are high; with giant field potential Finding and Development Costs are low, and it is this that will drive development forward.

## **6. South Caspian Oil Investment**

So what does this mean for continuing short term investment in Baku and Ashgabad? Of the 19 Contract Areas that have now been ratified in Azerbaijan, all but one (AIOC) are Exploration Production Sharing Agreements (PSA). AIOC is a Development PSA for existing reserves, under a committed \$10bn development plan. To date AIOC have already pumped some \$870mm directly into the Azerbaijan economy.

For the remaining 18 Exploration Contracts some 29 investing exploration companies have made contractually binding work commitments, to be completed within the next three to five years. This work will not be abandoned. Most, if not all of these contracts carry the requirement for 3D seismic and a minimum of two exploration wells. Several carry far greater commitments. Consequently, drilling, oil field services, logistics and social infrastructure etc will continue to be needed in Baku, and the current work momentum will not go away. With only a modest success from what is an extensive Exploration Programme in Azerbaijan, some contracts will inevitably result in new Oil Developments. If only half of the \$30bn plus development plans envisaged in existing contracts mature, this should ensure the longevity of Baku Oil investment, with all the economic change that this should bring to the stability to the Caucasus.

Turkmenistan has come relatively late to the upstream game. But already, they too have some \$400mm of work commitments in place for oil contracts in their Western Region. But more importantly, if short term gas sales agreements with Turkey become reality, it will be the enormous gas deposits already found in East Turkmenistan that will have a far greater impact on their future economic growth.

## **7. Politicisation of Export Pipelines in the South Caucasus**

### **a Context:**

Five years have seen dramatic political change within the Transcaucasus. This is particularly true for Azerbaijan who pursued a singular Oil Policy that transformed its sense of destiny and independence, and its role on the international stage. It has been a period in which there has been a complete rebalancing of regional geopolitical influence and the weakening if not undermining of traditional regional ties.

In 1994 Azerbaijan was a country in economic collapse, enduring serious political chaos. It had a weak central government, an unstable and rapidly devaluing currency, hyperinflation, and seriously negative economic growth. It suffered from regional confrontation, and an unresolved war in Nagorno Karabakh. With the burden of almost one million IDPs (internally displaced persons) in a total population of just over seven million, the situation was unmanageable. It was also a country that was isolated internationally, without apparent influence. It was politically dominated by the traditional regional power players of Russia, Turkey and Iran. Its long suffering literate skilled and sophisticated people were totally demoralised. They had no sense of future expectation, or relief from the oppressive, and hostile environment under which they attempted to survive. By 1999, four years later, we see the emergence of strong central government, a developing democratic process, a vocal press and a viable political Opposition. There is an emerging free market, the country has stabilised, and inflation reduced to low single figures. Internal budgeting, finance, and fiscal reforms have effectively maintained national debt at low levels (despite the collapse in oil price a year ago); and central budgeting has attracted the positive approval of the IMF. An effective (but not yet perfect) western business environment has been created, with a proven track record. But more dramatically the country has achieved true international status, which is exceptional for a small nation with a population of less than say the city of London. However the Karabakh War remains unresolved, the IDPs remain disenfranchised, and their conditions have worsened. But the long suffering population as a whole now have raised expectations, with a taste for the democratic process. They have demands that must be met. The political challenge facing regional stability is now internal as well as external. The people want jobs and stability for the many, and not wealth for the few. Herein lies the challenge.

#### b Azerbaijan and the new oil strategy.

It was the formation in Baku of the AIOC international oil consortium in 1994 that saw the beginning of the strategic alignment, between the investing foreign oil companies and the government of Azerbaijan. The company became the vehicle through which Heyder Aliyev created not only the opportunity for internal national stability through economic change; but new international geopolitical alliances that were to be so critical for independence in the longer term. A far-sighted oil strategy was to re-balance the geopolitics of the Caucasus as a whole.

So what drove the foreign investors of AIOC in 1994 to take on what was so clearly a substantial investment risk? Very simply, access to an undeveloped giant offshore oil field, with some 4 billion barrels of existing oil reserves; to be developed by conventional technology. Geology and low technical risk were the critical factors to move investment forward. Political risk was the overwhelming challenge, for both the government and the foreign investors. The oil investment maxim that “When politics are hostile, keep your geology simple” applies.

What in turn drove the Azerbaijan leadership forward? Simply put, international political support. Baku saw that ‘Flag would surely follow Trade’. AIOC became a microcosm of

regional and international politics, whereby investor governments supported the political needs of their major companies; and oil investment in Baku became synonymous with national self-interest.

When formed in September 1994, AIOC comprised ten companies with seven national interests. It brought Washington and London to the negotiating table; but at the same time regional interests in Moscow and Ankara were to be well served. The arrival of Japan in 1996 to a large extent set the seal of political approval on what had been achieved, and reflected the political stability and economic optimism of the new ownership.

Unlike comparable oil contracts initiatives in Russia, Azerbaijan recognised immediately that the critical requirement for any secure oil strategy would have to be based on well-defined oil Production Sharing Contracts, that clearly recognised and protected investor needs. The government decided that each oil contract would incorporate four essential elements:

- Fair but tough commercial terms that were well balanced between investors and government. There should be no in-built temptations for early contract re-negotiation.
- All oil contracts would be spelled out in great detail, so that both parties were in no doubt with regard to their contractual obligations.
- Each contract would be ratified by Parliament, and would enjoy the force of Azerbaijani Law.
- Each contract would include significant financial and work commitments, that would become the basis for economic renewal in the Republic as a whole.

Azerbaijan's oil strategy as a basis for geopolitical influence was well considered from the start. AIOC became the catalyst for change. It is instructive to recall the 1995 decision making behind this first Oil Project in , and the commercial and political drivers that were needed for its success. The immediate challenge was to resolve the issue of obtaining stable and secure export capacity for AIOC "early oil" to the Black Sea. Initially it was determined that one export route would be chosen. This resulted in a competitive choice between Russian infrastructure from Baku to Novorosysk, or Georgian infrastructure from Baku to Supsa. Both options proved to be technically and commercially viable. However, after some considerable internal debate it was decided for both operational and commercial security that a multiple pipeline solution was to be preferred. Both pipelines would be used, and a multiple pipeline policy was accepted by both the US and the EU. for their political support.

Consequently in February/March 1996 contractual agreements were signed with both Russian and Georgia, which involved the highest levels of political lobbying on behalf of AIOC, by both host and investor governments. Truly 'Flag followed Trade'. It should be noted that both Russia and Turkey were positive in their support of Azerbaijan's

commercial ambitions. Dialogue was free between all the players. It should also be recorded that during the reconstruction of these early pipelines design capacity allowed for later expansion to accommodate the next major phase of oil development that the AIOC investors were already planning. The aim was to maintain a continuous investment with no dislocations. It was recognised by AIOC that for each year delay, they exposed the Project to a value loss of some \$100 million NPV. The economic effect on Azerbaijan arising from delay was potentially far worse. The first AIOC export oil successfully reached the Black Sea in December 1997.

Simultaneously with this AIOC development activity, Azerbaijan also promoted an aggressive award of new Production Sharing Contracts not only to enhance its plans for internal economic renewal, but to expand its base of international geopolitical alliances. Commercial and political ties were fully and firmly cemented with Georgia; and the two leading statesmen (Aliyev and Schevarnadze) embarked on a high profile international geopolitical offensive, during a period which by historical chance coincided with serious ongoing internal political distractions in Moscow, Ankara and Tehran.

In 1994 AIOC brought Washington, London, Moscow, Ankara, Oslo, Riyadh, Tokyo to the political table. In 1996 and 1997 further contracts followed, with the arrival of Paris, Brussels, Rome, Bonn and Tehran. By end 1998 some 13 offshore and 2 onshore contracts had been agreed, which added Madrid to the geopolitical pot. But throughout the period Washington, London and Moscow consistently maintained pole positions. By 1998 President Aliyev declared his geopolitical plan was in place, and further contract awards would be driven by commercial considerations alone. Canada arrived in 1999. With 15 offshore contracts and 4 onshore contracts, involving 30 investing companies in total; Phase I (1994-1997) of Azerbaijan's oil development was truly a period of regional and international cooperation with increasing optimism for the future. It saw investment decisions being taken on purely commercial grounds, and it created a sound basis for significant internal economic renewal.

### c South Caspian Regional Pipelines and National Interest

Under the terms of the AIOC Production Sharing Contract, the consortium had the obligation to prepare for a future Main Export Pipeline to accommodate the large volumes of export crude that were being projected for the South Caspian. Consequently from as early as 1994 AIOC began detailed feasibility studies for competitive long term major pipeline route options. One was to be eventually selected, essentially on competitive commercial grounds. A variety of route options were to be considered; Baku-Novorsysk (RF), Baku-Supsa (Georgia) and Baku-Ceyhan (Turkey). Supplementary reviews of Bosphorus by-pass options were also to be done in recognition of the seriousness of this marine logistical bottleneck. A southern route option through Iran was soon eliminated by the commercial realities involved.

However by late 1997 the fact that main export pipeline selection was to be a "zero sum game" with a single winner, caused a sea-change in regional political opinion. For the South Caspian, Turkey took an entrenched position in favour of Baku-Ceyhan. This

became a central plank in foreign policy. For them it was the only option to be considered, even though Baku–Ceyhan could never be the lowest cost option. Politics began to override commercial considerations. Moscow (Nemtsov) was equally convinced that their northern route to Novorsysk would have the commercial edge; but recognised that the route carried inherent problems for security through the North Caucasus. A Chechen by-pass was proposed. At the same time AIOC and its investor shareholders saw the Main Export Pipeline as being required for long term export only, when cumulative offshore production levels would commercially support investment in a 1 million barrel a day pipeline. AIOC were still engaged with the commercial concept of expansion of their “Early Oil” pipelines, perhaps as a first phase of future MEP development. This would ensure continuity of ongoing investment, and would accommodate the next tranche of oil to be evacuated from Chirag-Azeri (350000 b/d). Thus for a variety of reasons polarisation of regional political interests became focussed on the Main Export Pipeline issue. The regional cooperation enjoyed by AIOC for its Phase I Early Oil Project was dissipated. “Trade was now being forced to follow Flag”. The result was delayed investment (1997-); when non-economic pipeline options were being promoted by governments, against the commercial interests of the foreign investors.

d Three Geopolitical Blocs emerged from this South Caspian debate:

Bloc 1. “Proactive Challenge” (for Baku-Ceyhan only); led by the USA and Turkey, but including Azerbaijan and Georgia. These now aligned their broader foreign policy interests with Washington in direct conflict with Moscow. At the same time but with some reluctance, Azerbaijan tacitly supported US Containment policy against Iran.

Bloc 2. “Frozen Instability”( with no new pipeline activity); led by Russia together with Armenia and Iran. Their primary aim was to maintain a regional “status quo”, with no rebalancing of regional interests, until such time it was in the interest of the Bloc so to do. The collective aim was to resist all further expansion of US interest in the region.

Bloc 3. “Measured Neutrality (for multiple private sector pipelines ); led by the European Union but with the full support of the Foreign Oil Companies. All saw the even handed balance of regional interest as being critical to long term stability and security. They supported a pipeline policy of “multiple options” which meant what it said.

This polarisation into self interest blocs now worked against long term stability and security. It represents the Second Phase (1997-) of Foreign Policy Development in the Caucasus; putting at risk much of the positive change that was achieved in Phase One (1994-1997). It has undermined the need for compromise between Armenia and Azerbaijan over Nogorno-Karabakh, (which itself impacts on the long term security of any pipeline system to Turkey); whilst more importantly promoting global consequences as well. Recent events in Kosovo, the second Chechen war, and the sensitivities of Russia to the new global order are all intimately tied up within the Caucasian regional paradigm.

But for Azerbaijan and Georgia this regional power play has had a more immediate effect. There has been a material slow down in internal investment, delayed income for

government, and the absence of work (new jobs) for the population at large. Two years of ongoing investment in new infrastructure by AIOC has been lost during procrastinated MEP negotiations. A decision for a \$3 billion development project on the Azeri structure remains in abeyance. Internally this has created a developing crisis of confidence. There is a growing internal belief that Azerbaijan's Oil Policy could be potentially flawed; against the long term interest of the State. Many service contractors left Baku, as they could not tolerate delays, and major new hotel and office complexes remain under utilised. Initially US foreign policy in the region was focussed very much on the moral high ground. They aimed to support the long term independence of the countries of the South Caucasus and Central Asia through economic renewal; to be based on the rule of law, respect for human rights, the promotion of the democratic process, a free press, and the fostering of free market economies. This policy remains in place and is shared in full by the European Union. But the support of any national independence, by definition, engages the external player in the broader geopolitical arena. For the US this meant constraining Russian and Iranian influence in the region; whilst simultaneously requiring an increased presence in the region by the US itself. This inevitably led to regional diplomatic and commercial conflict which almost by default became focussed on the pipeline issue. All was largely based on an untested perception that enforced selection of pipeline routes for petroleum export from the Caspian would determine long term geopolitical outcomes.

For the US this invoked as a first priority their direct support for Turkish ambitions in the Caucasus and Central Asia. It reflected long term regional security obligations (particularly for the Middle East), as well as for Turkey's regional economic interests. Firstly by supporting Turkish pipeline ambitions in the Caspian without any financial obligations, it provided a low cost option for the US to strengthen its alignment with Turkey. Secondly it provided a direct vehicle to promote ILSA and Iran Containment. From this in 1997 the US Office of the Caspian Coordinator was born. Regional geopolitical conflict became inevitable; as both Russia and Iran saw Baku-Ceyhan as the centre piece of an American strategy to dominate the Caspian region, with their own exclusion. But with the EU remaining passively in the background, by default it encouraged this belief.

But Baku-Ceyhan as a geopolitical symbol to cement the members of Bloc 1 into a coherent long term stable alliance was one thing. What the US was not prepared to do was to provide the private sector with direct economic incentives (subsidies) to see that the line became a physical reality. Despite the Baku-Ceyhan Accords of October 1999; no public sector external finance has emerged.

There is still insufficient Caspian oil available to fill the proposed Baku Ceyhan design capacity, and justify short term construction. New South Caspian oil discoveries will be made; but to bring this oil to market will involve long term development lead times (seven years or more). AIOC already has potential moveable oil, but no existing export capacity. In the absence of financial subsidy for Baku-Ceyhan, they are forced to look at more prudent and pragmatic solutions. Expansion of their existing infrastructure remains their immediate alternative. With current insecurity in the North Caucasus, Baku-Supsa

expansion would be technically and commercially their first choice. This could even be part of a Phase I development of a future main oil line from Baku to Ceyhan. However the situation is now at impasse; and urgently needed ongoing investment by AIOC in Baku remains suspended. Already two years delay on this investment decision have cost the foreign investors lost value; and pushed out material cashflow to Azerbaijan under the AIOC Contract to 2005 and beyond.

#### e The Present

Today a very fragile political and economic “status quo” pertains within the Caucasus, which is unlikely to survive unless strategic change occurs. Major expectations were raised by the latest OSCE Summit in Istanbul (10/99), at which Presidents Clinton and Yeltsin were present. A degree of political rapprochement between Russia and America was expected; with at least a resolution of the Karabakh Conflict as one positive outcome. In the event the meeting was overshadowed by the deepening Chechen crisis, and the threats by Russia against non-interference by those present in their internal affairs. In particular Russia demanded respect from the international community, concomitant with their leadership position in the World. The language of the Cold War returned.

So where does this leave Baku-Ceyhan and the politicisation of Caucasian pipeline routes? Given the symbolic profile promoted by the US for Baku-Ceyhan with all its associated geopolitical rhetoric, to retreat from its position would be a serious blow to US prestige and credibility within the region. For Azerbaijan and Georgia, who also firmly nailed their flags to the Baku-Ceyhan mast, in the absence of success for Abkhazia and Karabakh they now need to accept a political U-turn if they are to allow AIOC to go ahead with existing pipeline expansion. Likewise because the US were unwilling to subsidise Baku-Ceyhan itself, they encouraged Turkey to take on substantial financial risk (a low bid turnkey contract on the Turkish sector of Baku Ceyhan) at a time when the country is already experiencing considerable economic problems and other pressing needs for internal capital investment. When there are already doubts over the timing of such export capacity needs, and in the absence of foreseeable investment from the private sector, it should be in Turkey’s own economic interest to delay this premature pipeline expenditure. Turkey could obtain all necessary South Caspian commitments to Baku Ceyhan through a phased approach, with Baku-Supsa expansion first, followed by an extension to Ceyhan. By encouraging Georgia and Turkey to see pipelines in political rather than economic terms, the US not only raised expectations that other perhaps more critical issues would be removed to compensate for potential economic loss (Karabakh and Abkhazia), it inevitably led to serious souring of political relations with their immediate neighbours (Russia and Iran).

#### f The Future

So how does one rise above such complexity to overcome a dangerous stalemate? Herein must lie a visionary role for the European Union to facilitate long term stability for its own strategic self interest. With Turkey’s long term initiative to join the EU becoming a

reality; with the geopolitical realities surrounding EU-Russian relationships and the security of common borders; and with rapidly improving relations between EU and Iran; all combine to suggest that the leadership role previously enjoyed by the US should realistically now pass to the EU. This would not only help defuse current pipeline conflicts of interest; it would also allow the US to back off gracefully from where it currently finds itself; without resort to financial penalty (subsidies), or loss of political prestige.

Such change would make particular strategic sense within the context of a common European Union Energy Policy. As we have seen, Southern Europe (together with the Black Sea) must become the market destination for Caspian crude, at a time when European North Sea supplies are in terminal decline. Caspian crude is vital for European long term strategic interests. As the lead foreign investors in Caspian Energy Development are now predominantly European, this enhances this position. Commercial self interest will continue to maintain UE alignment with the US investment sector.

Similar comments can be made for the transportation of Central Asian Gas, with Turkey as the entrepot. This is a broader issue that cannot be covered here. But it is an undoubted certainty that the enormous proven gas reserves of Central Asia, the South Caspian and Iran, are more than sufficient to provide an economically viable and sustainable gas supply into Southern Europe for the 21<sup>st</sup> Century as a whole. This gas is certainly the key alternative to a Russian monopolistic gas supply long term. This is reflected in the current race to capture the existing Turkish Gas Market; between Russia's Blue Stream Project on the one hand and the Turkmen-Azerbaijan Trans-Caspian Gas Pipeline Project on the other. This too is a "zero sum game", as only one project will win. The Turkish Gas Market is unable to absorb both gas supplies. If the Trans-Caspian project loses, the South Caspian will not only lose an immediate investment of \$2.5 billion, but Caspian – Turkmen gas reserves could well become stranded assets for the foreseeable future or longer. It should be in the EU interest to see that this does not occur.

Existing EU initiatives in Central Asia and the Caucasus (TRACECA, INOGATE, Energy Charter) for the rehabilitation of regional logistics and infrastructure for East-West trade have already raised a profile for EU in regional political leadership. Clearly for the EU to promote successful long term regional renewal in the Caucasus, the issues surrounding existing conflicts (Karabakh, Abkhazia) must be resolved with some immediacy. Demography and energy resources must play a major role in policy formation. However free market private sector investment will inevitably be needed to underpin the process. Coordination will be complex between the Private and Public Sectors, but broad based analogies with the economic renewal of post WWII Europe immediately spring to mind. Time is of the essence, as despite success to date the region is fragile and could still revert to chaos.

## **8. Conclusions**

To summarise:



- Caspian Oil Reserves (30nb/d proven, 40nb/d YTF) are material within a global context; but compare more closely to North Sea projections than inflated comparisons with the Persian Gulf.
- Caspian Production should average some 3 million barrels per day by 2010, if no long term dislocations in the development process occur.
- Caspian oil will never be a global swing producer, as its production will be strategically tied to Southern Europe and the Black Sea. However 10% of Caspian Oil will move south to the markets of North Iran.
- Caspian Exploration Failure Cost is high; but Finding Costs are low. Offshore oil developments in the Caspian are commercially viable long term, but for the major oil companies only.
- Fully built up Caspian Development Cost is currently approximately \$12.50/bl; which is predicted to fall to \$8.0/bl within the coming decade.
- Caspian crude is commercially competitive on a global basis, in all scenarios which involve an Oil Price of \$15/bl (Real) or more.
- In the first Phase of Baku Oil Development (1994-1997) 'Flag followed Trade'. For the second Phase of Baku Oil Development (1977- ) 'Flag has attempted to Lead Trade'. The consequences have been negative.
- The politicisation of regional pipeline routes from the South Caspian over the past two years has reopened regional conflicts. It has suspended economic renewal of the Caucasus, without compensatory resolution of internal conflicts (Karabakh, Abkhazia).
- Unless there is an immediate return to politics of regional cooperation, current instabilities within the Caucasus will become exacerbated.
- It is in the urgent economic and political self interest of both Azerbaijan and Georgia to cooperate with AIOC and the Trans-Caspian Pipeline Project; to sanction these two projects this year; to attract an immediate \$4 to 5 billion of new investment into the South Caucasus.
- Long term Caspian Energy Supplies are strategically critical for Southern Europe and the European Union. EU leadership in their development together with the security of the region is politically prudent and expedient.
- In terms of Large State-Small State Relations in the Caucasus; "Better a Good Neighbour than a Distant Relative" – Old Georgian Saying.

# Prospects of a Stability Pact for the Caucasus: Some Preliminary Speculations

Sergiu Celac

## Abstract.

*This tentative sketch of a possible regional arrangement for the Caucasus is built on the premise that a clear distinction ought to be made between the northern entities, which are parts of the Russian Federation, and the three sovereign states in the south. The former could be dealt with under special joint EU-US programmes for Russia, while the latter could be the object of a Stability Pact according to a pattern that is similar, but not identical, to the Balkan scheme. The hurdles along the way are identified as: active and latent conflicts; the weak state syndrome; growing economic disparities and social polarisation; national and regional security and defence problems; unconventional threats to security and stability; geo-strategic headaches. The Caspian project could open new chapters of constructive dialogue between EU and US, and also between the Transatlantic partnership and the Russian Federation, involving other regional partners as well. The establishment of a CEPS Caucasus Task Force is proposed with a view to examine the issues involved and to prepare a proper action plan.*

There are many similarities between the Caucasus and the Balkans, or South East Europe to be politically correct. The concept of the Stability Pact for South East Europe is certainly relevant for the Caucasus, as this author tried to suggest in a separate paper. Both are part of Europe, and most of the entities in each of the two subregions are politically committed to eventual integration in the European Union and the Euro-Atlantic security space. But relevance and similarity are not tantamount to identity. There are also differences of substance between the two subregions and, consequently, of approach to their specific problems.

When discussing the prospects of a possible stability arrangement for the Caucasus, it is very tempting to take the existing format of the Stability Pact for South East Europe and to adjust it to the actual conditions and requirements of the area at the other end of the Black Sea. A few things would have to be dropped, others would have to be added, but the basic concept could be preserved. Eventually that may well happen, but not just yet. To be realistic we have to go through a preliminary stage of conceptual footwork. In this we have the advantage of knowing, more or less, what was done right and what went wrong in the Balkans--and why.

This paper proposes to sketch out in general terms a few working assumptions for further discussion. It is definitely not as ambitious as to suggest a road map for action.

## **1. Which Caucasus?**

Before embarking on a structured endeavour to produce an outline for a regional stability pact it is important to circumscribe exactly the region we have in mind in simple

geographical terms. For the purpose of this paper it is assumed that the proposed pact should cover the three independent states of Southern Caucasus: Armenia, Azerbaijan and Georgia.

It ought to be noted that the term 'Transcaucasus' or 'Transcaucasia' (*Zakavkazie* in Russian) is not accepted as accurate by the three countries concerned because it evokes the old imperial concept (valid both under the czars and under the commissars) of the Caucasus as a single unit. In fact, 'the Caucasus' can be considered only from the point of view of physical geography since it never existed historically as a separate political entity. That is why any reference to a possible security arrangement in the Caucasus as a whole is a politically loaded question. It touches a very sensitive spot, and it is perceived as camouflage for a renewed attempt to rebuild the centralised ex-Soviet political space.

The three countries of the Southern Caucasus recognise the sovereignty of the Russian Federation over the various autonomous republics or regions situated north of the Caucasian range (Kabardino-Balkaria, North Ossetia, Ingushetia, Chechnya, Daghestan). Moreover, they have mixed feelings about the independence drive in some of those administrative units (most notably in Chechnya). Further destabilisation in the north Caucasian provinces may have a spill-over effect particularly in Georgia and Azerbaijan. It may also induce Russia to undermine the young democracies of the Southern Caucasus by trying to make them responsible for a situation that Moscow itself is no longer able to control. A reasonably good relationship with Russia and stable, safe borders with Moscow-controlled nominally autonomous territories is therefore considered preferable to a *cordon sanitaire* formed of endemically unstable 'independent' entities with a proven tendency toward rogue behaviour.

Indeed, the basic ingredients for real sovereignty and independence from Moscow in the provinces north of the Caucasus are either very weak or conspicuously missing. In the event of further disintegration caused by the internal political dynamics in the Russian Federation, it will take a lot of time and effort to establish functional institutional structures in those territories. Such a development is not likely at the present juncture, but one should not entirely discard the possibility. In any event, the emergence of new sovereign entities would immensely complicate the regional integration process. If and when it happens we shall have to rethink the whole concept of a regional stability pact.

Conversely, Armenia, Georgia and Azerbaijan have gone a long way these past eight years toward re-establishing the fundamentals of their statehood linking up to a tradition that goes back almost three thousand years. There are problems, serious ones in their bilateral relations, but their domestic political institutions are coming of age, they have established their credentials as serious international interlocutors, and they are becoming increasingly aware of the logic and potential benefits of a regional approach.

By way of consequence, there is little pay-off, at least in the medium run, in speculating about the eventual integration of the Northern Caucasus in a regional co-operation

scheme. Russia was understandably resentful about letting the former Soviet republics, the so-called 'near abroad', go. Fiddling with federal territories is dynamite, as the forceful, even brutal reaction to Chechnya's bid for independence has already abundantly demonstrated. It is a lot more rational to have Russia as an out-of-area partner, alongside other partners with a stake in the stability, security and prosperity of the Southern Caucasus.

A possible way out of this predicament could be to operate a clear-cut distinction between the Northern and the Southern Caucasus and between the solutions envisaged for each of the two regions. For the northern entities, which are parts of the Russian Federation, special joint European Union-United States programmes could be agreed with Moscow, comprising also an implementation mechanism. For the three sovereign states of the South Caucasus (Armenia, Azerbaijan and Georgia) it may make a lot of sense to explore the possibility of a Stability Pact following, more or less, the pattern of the existing scheme for South East Europe and providing for a constructive involvement of other regional and global actors.

## **2. Hurdles along the Way**

Moving ahead toward a conceptual design of the South Caucasus Stability Pact requires careful consideration of the problems that need to be overcome in order to get there. Some of those problems are difficult and complicated, some are endogenous and some are compounded by extraneous elements, some are pressing and some can wait, some have to be tackled one at a time and some have to be dealt with in a package, some are old and some are new. None of them is intractable.

Before starting to set priorities we have to acquire a reasonably clear representation of what do we want and what are we up against. Then we proceed with the mission statement and the action plan. An inventory of issues is therefore the obligatory first phase. Only on such a basis can we pick up those items that lend themselves to easier solutions thus creating a momentum for wrestling with the more complex ones.

### a Active and latent conflicts.

The region of the Southern Caucasus is rife with conflict potential. Half of the time since independence all three countries were engaged in actual shooting war along or inside their borders. Outside interference, both overt and covert, only made the matters worse. The contribution of the international community (UN, OSCE, the Minsk Group), while helpful, has not been spectacularly successful in eliminating the sources of tension.

Venturing to suggest an hierarchy of importance may be a risky and controversial exercise. Still it appears that Nagorno-Karabakh should be listed as priority number one because it involves state actors and because it is about territories. The other conflicts in the region have to do with actual control by the central national authorities of territories the sovereignty over which is not in dispute. That is why a fair and realistic settlement of the Nagorno-Karabakh issue is a precondition for progress toward a regional Stability

Pact. In fact, an Armenia-Azerbaijan Peace Treaty would be an indispensable component of such a Pact.

A pretty large number of local hotbeds of conflict, most of them simplistically labelled as ethnic or religious, were described and discussed in other learned studies. A complete inventory is necessary, with issue-specific options for viable and lasting solutions. Most of them will, hopefully, disappear or become more manageable in step with the progress of democratic institutions and the advent of market-driven prosperity. In the meantime, the Stability Pact process could become instrumental in singling out those issues which would profit most from a multilateral approach to their settlement.

#### b The weak state syndrome

The usual connotation attached to that phrase is a state's inability to collect taxes and to use its revenues sensibly. By inference it covers the whole gamut of indicators of good governance from the maturity of democratic institutions to the rule of law, and to the existence of functioning market mechanisms, civil society and independent media.

It is only apparently paradoxical that the three countries of the Southern Caucasus—some of which have an authoritarian form of government, to put it mildly—are believed to suffer from that syndrome. Significant progress has been made on the path of democracy, but there is still a long way to go before they reach the accepted European standards.

The inevitable change of political generations and the emergence of new political and business elites with little or no recollection of the Soviet past will bring in new values and new notions of leadership and social responsibility. But this is not an automatic process, and a positive outcome is by no means decided in advance. The instruments and the appetite for change have to be created from within the system as it exists now. Proper education and training are just part of the answer to that problem.

A regional Stability Pact can only be truly meaningful if it is concluded and further operates among members that share the same values, fundamental institutions and ways of doing things. Political developments inside each of the participating countries are highly relevant for the Pact's effectiveness and viability.

#### c Growing economic disparities and social polarisation.

This phenomenon has been common, though in varying degrees of intensity, to all the independent states that emerged from the ruins of the former Soviet empire and also to the other countries in transition. The nations of the Southern Caucasus are no exception.

Nevertheless, unlike most people in other parts of the ex-USSR (notably Russia, Ukraine, Belarus), the Georgians, Armenians and Azerbaijanis used to have a reputation of fierce individualism and mercantile *savoir-faire* even in the old communist days. It is fair to say that, at the grass roots, they may be better equipped to face the challenges of market

capitalism in a competitive environment. The resentment about other people's property and wealth is much weaker in the Southern Caucasus.

The role the state has to play in the fair, but not egalitarian, distribution of wealth is another problem. The Stability Pact may become a valuable vehicle for the gradual implementation of fiscal reform and social cohesion policies which would make more obvious the direct benefits of co-operation in a regional framework.

#### d National and regional security and defence problems.

According to opinion surveys, most of the people in the countries of the Southern Caucasus, particularly in Georgia and Azerbaijan, perceive the Russian great-power imperial ambitions as the main threat to their national security and internal stability. Recent pronouncements by Russian political and military officials in the context of the Chechen war have done little to alleviate those apprehensions.

The record of observance by the Russian Federation of its specific commitments under the Conventional Forces Europe (CFE) Treaty, especially with regard to southern flank limitations, is not very encouraging either.

While the requests for a physical NATO presence in the region may have been a bit premature and therefore unrealistic, it has to be noted that security concerns in the Southern Caucasus are real and legitimate. Involvement in PfP and EAPC activities has been a useful learning exercise, but it is no substitute for even 'soft' security guarantees.

The Stability Pact will have to contain something more than a mutual obligation of the three member countries to recognise and respect each other's territorial integrity. Unlike the Balkan case, it will have to provide some sort of internationally sanctioned commitment about the inviolability of the region's external borders as well.

#### e Unconventional threats to security and stability.

Those threats are very real in a region wrecked by war and civil strife. Porous external frontiers traced through very rough terrain and long stretches of not properly guarded littoral on the Caspian and the Black seas make the problem even more complicated. There is justified fear in all three countries about the prospect of 'imported' organised crime networks linking up with the local criminal elements.

The merits of a co-ordinated regional approach, with adequate international guidance and assistance in terms of training and equipment, are obvious but still have to be emphasised time and again. Urgent and decisive measures are required in order to prevent the penetration of illegal and corrupt practices in the higher decision-making echelons.

The Stability Pact will have to spell out specific targets in that domain, including the commitment to develop a joint system of legislative and regulatory instruments and to build up institutional capacity for their implementation.

## f Geo-strategic headaches

In addition to having to put up with a complicated neighbourhood, the countries of the Southern Caucasus also enjoy the dubious privilege of being the subject of global geopolitical games. The interests of powerful outside players often diverge, and the impact in the region is immediate and painful.

Ironic as it may sound, the greatest challenge for the Southern Caucasus Stability Pact will not be that of getting the three countries in the region to agree on a rational set of principles and practical steps regulating their mutual relationships. It will be to get the global and the neighbouring regional powers to achieve a balanced accommodation of their respective interests in the Southern Caucasus. Difficult—yes, impossible—no.

### **3. Economics versus Politics**

The one capital difference between the Balkans and the Caucasus is that the latter is either the home of, or the preferred conduit for, huge hydrocarbon and other resources of strategic value (cotton, uranium, other precious minerals). The Caucasus is also the bottleneck of a land bridge, the strategic business route between Europe and Asia, the modern revival on the ancient Silk Road. Possible alternative links to parts of the Middle East and the Indian subcontinent are also being considered. It is going to be a two-way track creating a strong motivation for stability as a precondition for shared prosperity. Sizeable long-term economic, and therefore also political, interests are involved. Powerful states and multinational companies are planning ahead in terms of decades, not years. The countries of the region are learning fast how to take advantage of that set of favourable circumstances.

The nature of international involvement in the Caucasus is, consequently, different from the Balkan experiment. The reaction of the European Union countries and the United States to the 'ugly wars' in South East Europe was triggered by a sense of moral outrage and an awareness of common responsibility for what was happening in Europe's own backyard. The incentives for action in the Caucasus originate in easily identifiable geo-economic interests. Those interests may differ considerably and need to be further elucidated, but at least we have a fairly clear picture of what is at stake. That is to say that, if there is a will, mutual accommodation based on rational payoffs resulting from hard bargaining is always possible.

For obvious reasons, the concerns about stability in the Caucasus were originally linked to the safety of planned pipelines and other transport routes. Long debates took place on the subject whether the establishment of a secure environment should precede the decision to lay out a pipeline or whether the prospect of revenues from an existing pipeline is apt to encourage decisive action to provide for its security. The possibility that the coming oil and gas bonanza may lead to either a consolidation or a disruption of the existing political and social fabric (especially in Azerbaijan and in some Central Asian

countries) was also discussed at length. The patterns set by Norway and Nigeria, respectively, in coping with “the wall of money” were evoked.

The fact is that the Caucasus finds itself in a unique position of double dependence on supply and demand. On the supply side it has to rely on the projected production figures in the Caspian area. On the demand side it has to keep an eye on the expected consumption, and therefore price levels, in relation to its main customer: a larger Europe. The planned pipelines, trans-Caspian for both oil and gas, Baku to Ceyhan for oil, added to the already operational Baku-Supsa oil pipeline and the potential development of the Batumi oil terminal greatly enhance the importance of the Southern Caucasus as the transit link between the production areas and the markets. This also places in a novel perspective the key position of the region in future relations between the eastern shores of the Caspian and the western shores of the Black Sea, and the areas beyond them.

Besides oil and gas, which had the merit of putting the Southern Caucasus on the map, as it were, and the development of attending energy, transport and communications infrastructure, there are other attractive domains for profitable investment once a reasonable degree of political stability and institutional consolidation is achieved. The relatively high educational and academic standards offer interesting opportunities for high technology design and production activities. The potential for the tourist industry is enormous thanks to the natural conditions and an incredibly rich cultural heritage.

The future Southern Caucasus Stability Pact will have to include a substantial chapter on economic and human development. Some of the recipes prepared for South East Europe (prospect of EU membership, trade liberalisation, free trade area, gradual euro-isation) may be relevant also for the Southern Caucasus, but they have to be proved in action and also to be further refined and adapted to local conditions. In any event, in the Southern Caucasus a political settlement has to come first, even if it has to be built into a more comprehensive package.

#### **4. The Intellectual Input**

The complexity of the issues in and around the region of the Southern Caucasus and the variety of options for possible solutions eventually to be filtered into a draft Stability Pact urgently require the establishment of a comprehensive base of relevant knowledge, not just information. In this respect proper networking with local think tanks and individual authors is essential. Adequate, if not necessarily pleasing, conclusions should be drawn from the mixed record of co-operation with local analysts in the preparation of the Stability Pact for South East Europe.

So far, analytical contributions from independent sources operating outside the government establishments have not been very substantial or impressive. There is a simple explanation for that. Most of the academic and research institutions in the region depend on government subsidies for their budgets and tend to express the views of the powers that be. Even the independently funded NGOs often take a partisan stance, either on behalf of the government or of the various segments of the opposition. In most cases



they would present highly politicised patriotic statements which have little to do with objective analysis of hard issues and exploration of the middle ground for a realistic regional approach.

In concrete terms, the CEPS could take the lead in building up the necessary intellectual capital underlying the design of a Southern Caucasus Stability Pact by establishing a generously funded Caucasus Task Force. The specific projects to be pursued by such a Task Force could include:

- A learned quarterly review dedicated to the specific issues of the Caucasus, North and South, and the adjacent areas;
- A number of 6-12 (multiple of 3) visiting fellowships to be awarded on a competitive basis to scholars from Armenia, Azerbaijan and Georgia, with a contract obligation to produce Adelphi or Chaillot-type papers;
- Field trips to the Caucasus by European scholars resulting in mission reports and working papers (parts of such materials can have a limited circulation, for the Task Force members only);
- Periodical seminars, brainstorming sessions and small group debates according to a coherent calendar to explore specific items of the Southern Caucasus Stability Pact agenda.

## **5. Some Final Remarks**

A thorough examination of policy motivations, incentives, disincentives and possible leverage for positive action concerning the main regional and out-of-area players goes beyond the limited scope of this paper. A few general considerations of practical nature may still be in order.

While the Balkan crisis put the Transatlantic relationship to a test, this is so much more the case when it comes to the Caucasus. Both the European Union (or individual member countries) and the United States have an interest and a voice in what is going to happen there, but the balance may be different. Opening a new chapter of constructive dialogue is therefore imperative for close consultation and effective co-ordination. We have something to build upon. The special statement on the Caucasus and Central Asia adopted by the EU-US Summit on 18 May 1998 spells out a set of agreed policy goals which are still valid today. There are common assets available to support joint action, e.g. through the NATO's Partnership for Peace or Euro-Atlantic Partnership Council. Each of the two sides also has its own assets to bring to bear in this exercise.

A new promising chapter can also be opened in the political dialogue between, on the one hand, the European Union and the United States (both separately and in a co-ordinated fashion whenever possible) and the Russian Federation on the other hand. The potential mutual rewards can be huge, and they would be easily revealed through an in-depth analysis of each item on a possible working agenda.

The European Union can rely on some existing vehicles for closer ties with the countries of the Southern Caucasus, such as the Partnership and Co-operation Agreements, the

TACIS programme and the on-going projects under the TRACECA and INOGATE schemes. Those are important instruments which can be put to good use in setting the groundwork for the Southern Caucasus Stability Pact. The nature and substance of the relations entertained by the European Union and its member states with the immediate neighbours of the Southern Caucasus (Russia, Turkey and Iran) and those across the two seas (Kazakhstan, Uzbekistan, Turkmenistan to the east and Ukraine, Moldova, Romania, Bulgaria to the west, respectively) can also become a significant contributing factor towards building a propitious external environment for the regional Stability Pact. More specifically, the European Union is in a position to provide a most powerful incentive for a comprehensive regional stability and co-operation pact by making an unequivocal offer of eventual EU accession, with special transitional arrangements (“virtual membership”), to the three countries of the Southern Caucasus: Armenia, Azerbaijan and Georgia. In this case, it would be advisable to have the principles of differentiation and conditionality applied in a slightly modified form, with an emphasis on regional unity. The condition of having good relations with the other two prospective members must rank higher, preferably the highest, on the list of priorities. The prospect of eventual membership, with all its rewards and obligations, must be clearly circumscribed: either all three or none.

Distinct from the Central and South East European experiences, a more flexible approach is needed in the Southern Caucasus to give clear signals about the advantages resulting from the pursuit of sensible policies. If the performance is right and targets are met the rewards should be prompt, substantial and highly visible.

In order to give the regional Stability Pact a reasonable chance of success it is advisable to devise a preparatory action plan with incremental objectives matched by adequately assured funding. The agreed commitments of the three regional participants should be more or less symmetrical in terms of priorities and pace of implementation. The same principle should apply to institution and capacity building so that an agency or a committee in one of the countries should easily identify its counterparts in the other two.

It may also be worthwhile to consider the possibility of recommending to the three countries to prepare national strategies for sustainable development (or comprehensive development frameworks) and subsequent implementation plans according to the same methodology, structure and timetable. The UNDP can help greatly in that respect because of its previous experience and accumulated expertise. If the Armenians, the Azerbaijanis and the Georgians learn early on how to do things in compliance with certain established procedures and standards, it will be much easier for them to work together at a later date.

Most of those things can be done bilaterally, well before the regional format is established as an entity. The realisation that all three countries have so much in common will come as a pleasant surprise.

# Approaches to the Stabilisation of the Caucasus

Michael Emerson<sup>1</sup>

## Abstract

*The new conflict over Chechnya has already resulted in horrific destruction and human suffering, both with terrorist acts within Russia and the Russian riposte in Chechnya. The very difficult condition of the rest of the Northern Caucasus is exacerbated. The risks of dangerous spill-over into the Southern Caucasus are several – economic, inter-state relations, inter-ethnic relations. The major powers are not managing the situation well: Russia's military tactics in Chechnya are widely criticised, too much activism from the US in the region causes tension, while the EU is not active enough. Overall the Caucasus region could well succeed the Balkans as the major theatre of conflict, human suffering and escalating geo-political instability in the wider European area. With the prospective enlargement of the EU to include Turkey, and some serious European aspirations in the Southern Caucasus, it is desirable that the EU bring forward already to now the time when it takes a constructive strategic view of the region. Calls for some kind of new Caucasus Stability Pact now heard, but with imprecise or widely divergent statements on the nature of the mechanism. The need now is for hard-headed evaluation of what type of mechanism(s) could solve the problem(s), and certainly not some automatic photocopy of the Balkan Stability Pact. To offer some structure and content to this quest, four models are presented: (1) a derivative of the Balladur Stability Pact, (2) a derivative of the Balkan Stability Pact, (3) ideas of virtual EU membership and related innovations in constitutional structures for the South Caucasus countries, and (4) a Caucasus Dimension to EU-Russian relations. The conclusion is that a specific package from these several schemes is needed for the whole Caucasus region. Some aspects of the Balkan Stability Pact can be taken over, slimmed down in extensiveness of participation and agenda, with more focus on regional integration. However this has to be combined with other, more powerful initiatives. Stronger EU integration prospects need to be allied to constitutional solutions for specific ethnic/political conflicts. A whole new chapter of EU-Russian relations needs to be opened up, taking some inspiration from the Northern Dimension model, but in this case integrating the Turkish potential for economic dynamism and moderate, secular Islam. Indeed, the internalisation of Turkey into the EU opens up all sorts of new perspectives for the EU's external relations on the frontiers of Euro-Asia, which have hardly begun to be examined. The OSCE and Council of Europe should also have vital roles in the process, since the countries of the region all are, or should soon become full members of these organisations<sup>2</sup>, meaning common commitments to a comprehensive set of humanitarian and security norms. Common ground between all parties can be found over needs to combat terrorism, criminality and politico-religious extremism and to promote economic and civil society development in both the Northern and Southern Caucasus.*

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<sup>1</sup> Senior Research Fellow, CEPS. Thanks for help from colleagues Nathalie Tocci and Nicholas Whyte.

<sup>2</sup> All are members of the OSCE. Russia and Georgia are members of the Council of Europe, with Armenia's accession expected quite soon, and Azerbaijan probably to follow also in due course.

## 1. The devil moves on

*“The devil is prowling like a roaring lion, seeking someone to devour.”*  
(St. Peter, letter 1, chapter 5, verse 8)

For our purposes the devil consists of those traits of human behaviour – both individual and collective – which are capable of escalating life’s ordinary tensions into conflict, war, murder, genocide and physical destruction, and of distorting the psyche into pathological enmities, hatreds, and thirsts for revenge.

The devil’s purpose is to create hell on earth: either total destruction, or for survivors impoverished misery, and in any case the breakdown of civilisation. The devil’s supreme achievement is when these dynamic processes of escalating conflict and suffering spiral out of all control, leaving the individual and political leader helpless. The devil is unbiased on matters of nationality, religion or political ideology. He sees the whole world as his market.

The devil had a rewarding last decade in the Balkans. Hell was well entrenched at times in Bosnia, the Croatian Krajina remains a complete wasteland, and finally there was Kosovo. The devil had also some success in escalating a regional conflict into great power tensions, which of course offers appetising prospects for bigger conflict. However in the end he was forced onto the defensive, and now faces a counter offensive by a large coalition of countries of the region and of the international community (Stability Pact).

However the devil now moves on into the Caucasus, where his long-standing operations have in recent months enjoyed great escalation. In some respects this is an even more promising theatre of operations. The Balkans may be too close to Western Europe, with its suffocating stability and civility of society, to go the whole way to hell. In the Balkans religious divisions never degenerated into suicidal fanaticism, whereas Chechnya has, in the aftermath of the 1994-5 conflict, proved a fertile recruiting ground for just that. Moreover the great powers are more easily tempted into dangerous games of geo-political rivalry in the Caucasus. Here Russia is the major actor, not a lesser one as in the Balkans. Perceptions of geo-political rivalry from the US in the Caucasus are guaranteed to inflame Russian public opinion. Moreover, the devil is content to note that Russian indignation over Kosovo has led to the satisfyingly perverse result of encouraging policies over Chechnya which mimic the NATO bombing of Yugoslavia, thus justifying colossal collateral damage.

Hellish conditions seem to stretch out into the future indefinitely in the Northern Caucasus, where the spill-over of refugees creates enormous difficulties. Escalation into the relatively prospering Southern Caucasus could follow, for example through complicating the search for the settlement of the Abkhazian question; also through the porous frontier between Chechnya and Georgia, which has already led to Russian assault helicopters firing on Georgian frontier territory. As for the long-standing conflicts over Nagorno-Karabakh, there seemed recently to be emerging a possible settlement, but then the devil got a semi-lunatic to assassinate the Prime Minister of Armenia, which has set back the peace process.

Also the devil has his eye on Central Asia, seeing considerable possibilities for a wider set of conflicts, possibly with a continuum of destabilising activities from Chechnya to Tajikistan. The process could then connect through Afghanistan on to the Gulf, where the devil observes some semi-feudal regimes, which could well be destabilised and plunged into chaos.

## **2. Future frontiers of Europe**

Back in Europe, however, on the whole a relatively ordered geo-political map seems in prospect for the 21<sup>st</sup> century. There is an enlarging EU and a Russia, which become direct neighbours on their flanks, in the Barents, Baltic and Black Sea basins. Russia informed the EU in its strategic document presented at the Helsinki summit of December 1999 that it will not be a candidate for either full or associate membership of the EU. Also in Helsinki in the same month, EU enlargement processes for Latvia, Lithuania, Slovakia, Bulgaria, Romania, Malta and Cyprus were switched into negotiation mode. The Western Balkans are understood to be potential EU members. Ukraine remains a large question mark in the middle, with the EU neither pushing nor pulling on this, but the recent appointment of Yushenko as prime minister, following president Kuchma's re-election, give increased credibility to the idea of "Ukraine's European choice". Neither North Africa nor Central Asia are considered as having a "European vocation", to use informal EU language.

Of crucial importance in the present context, Turkey's candidacy was also accepted at Helsinki as a real political commitment. While the time horizon may be long, there has been nonetheless a change in the political mind-sets of both Turkey and the EU, with new prospects of positive politico-economic dynamics. Turkey is seen now on a path of internalising EU norms, as already illustrated by the decision to defer the Ocalan death sentence to the European Court of Human Rights. The EU can be seen on a track leading to internalising Turkey for the purpose of its foreign policy (as has always happened with EU enlargements - British, Spanish, Finnish etc.). A credible long-term event of strategic importance can be fed back into present day calculations (as bond markets translate such events instantly into asset prices, so foreign ministers can also instantly revise their horizons in a fuzzier way).

This leaves the Caucasus. For Russia the territorial integrity of the Russian Federation is first priority. This includes the Northern Caucasus, even if these seven entities have a high degree of internal autonomy, with diminishing Russian ethnic populations. There is no sign of the EU taking a different view. Official opinion tends to be very conservative on frontier questions, abhorring the prospect of changes from the status quo. Even if Russian military tactics in Chechnya are deplored, there is no interest in an independent Chechnya.

In the Southern Caucasus, the official speeches of President Shevardnadze favouring full EU membership in the long run are noted. Similar, if somewhat fainter voices from Armenia are also noted. The EU does not promote accession candidacies and

expectations, since it has more than enough to digest for many years to come. However, when the question is put about Georgia and Armenia in particular, it seems to be a commonly held view that these countries could indeed have a European vocation. While Azerbaijan has been the most distant of the three countries of the region from this sense of European vocation, it is to be seen how this may be affected by Turkey's candidacy, as and when this advances.

The EU has not been very active yet in the Caucasus. The US has made the running on the Western side. This makes for a worrying contrast between the North-Western and South-Eastern flanks of European Russia. In the North-West the Finnish-Russian frontier is without tension or distrust, and open to a wide agenda for progressive deepening of EU/Russian cooperation (called the "Northern Dimension" according to EU policy initiated by Finland). The accession of the three Baltic states to the EU is recognised in Moscow as a legitimate development. Concerns over the Russian minorities there may remain, but these and other frontier issues seem manageable.

The South-Eastern (Caucasus) flank is different. Western, i.e. mainly US, presence is seen as rivalry rather than cooperation. Military aspects heighten this. Russia has completely withdrawn from the Baltic states militarily. Its four military bases in Georgia were subject of an agreement between Russia and Georgia at the Istanbul OSCE summit in November 1999 for their progressive withdrawal. The President of Georgia speaks about looking at the criteria for NATO membership. In the post-Kosovo environment, the devil looks upon these details with relish.

Quietly signalling the potential for the Caucasus situation to cause escalating damage, it is to be noted that the November 1999 Helsinki foreign ministers' meeting of the Northern Dimension (i.e. EU, Baltic states and Russia), carefully prepared for over a year by Finland, was virtually wrecked by tension over Russian conduct of the war in Chechnya. EU foreign ministers mostly stayed away and sent deputies. The devil nodded with modest satisfaction.

### **3. Approaches to the stabilisation of the Caucasus**

The question then is whether the states of the region and the major powers could organise together a constructive strategic cooperation for the whole Caucasus region, so as to put the devil on the defensive there too. As things stand at present, this may seem rather a remote prospect. Russia is in election mode, and the speeches and manifestos are full of nationalist language (dignity, integrity, strength of Russia, defiance of a uni-polar world etc.). The EU has an enormous enlargement/institutional agenda to digest, and has yet to master the situation in the Balkans. The EU has largely left the Caucasus to the US, which itself is also in election mode and has now a difficult relationship with Russia.

So on balance the outlook is quite good for the devil. But these evident risks may mask in fact a potential for a new strategic cooperation, which the next Russian leadership may find more interesting to examine as and when the heavy fighting over Chechnya and the electoral period are over.

Recent times have seen a proliferation of regional cooperation projects in Europe, in fact in virtually every sub-region except the Caucasus (Barents, Baltic and Black Seas, Central European Initiative, numerous South-East/Balkan initiatives etc.). Not all of these are decisively effective to say the least, but still there is a persistent demand for such innovations and some experiences to bear in mind. The essential features of a selection is given in Annex B.

The search for a formula for the Caucasus has already begun. The most recent initiative is that of President Demirel of Turkey, who proposed the idea of a Stability Pact for the Caucasus on 16 January 2000 at a speech in Tbilisi, meeting with President Shevardnadze of Georgia. The Demirel proposal was not detailed, at least so far as we are informed.

President Shevardnadze has also made a number of speeches in favour of a Caucasus Peace initiative over the last four years. A group of experts in Tbilisi is at work with a mandate to develop such ideas, but again we are not informed of the results of this work.

Armenian foreign minister Vardan Oskanian is reported to have made calls at the OSCE Istanbul summit in November 1999 for a regional security system involving Russia, Turkey, and Iran as well as the three south Caucasian states.

President Aliiev of Azerbaijan is reported to have advocated recently: "The countries of the Southern Caucasus must enter the 21<sup>st</sup> century free from all conflicts and confrontations, and accept their own Pact on Security and Peace, without taking into consideration the ambition of other countries. ... All military units of foreign countries must be removed from all countries in the region".

The US Secretary of State advanced ideas for a Caucasus Cooperation Forum in the spring of 1999, according to which the three South Caucasus countries would be taking the main initiative to engage in cooperation on economic, environmental, educational, energy and scientific matters, with participation of the US, EU and the international financial institutions.

The EU encourages regional cooperation with and between the three South Caucasus countries. Its Partnership and Cooperation Agreements with all three have been the subject of signing ceremonies done symbolically at the same time and place together. It has mounted significant regional projects such as the TRACECA transport network.

Russia has regular meetings with its CIS partners of the Southern Caucasus, and it is understood that the forthcoming CIS summit on 25 January will be the occasion of a side-meeting between these four Caucasus states [it is expected that reports on this meeting will be made to the CEPS Brainstorming on 27/28 January].

However, at this stage there is a risk that the mere mention of the words "Stability Pact" might lead to the supposition that some derivative of the most recent Balkan Stability Pact should be the answer. We would argue that the first needs are to set out *the essence*

*of the alternative mechanisms* that are conceivable, and clarify what might be *the name of the game* in strategic and geo-political terms. Table 1 offers a menu of models, derived from existing schemes or ideas. These are now discussed more fully.

#### a Balladur Stability Pact – model 1

This initiative was relatively precisely targeted and structured in terms of incentives. A stylised summary would be this: all EU accession candidate countries of central and eastern Europe are kindly invited to sort out any unresolved problems of frontiers with neighbours and of the position of national minorities groups, especially where these belong to the titular nationality of a neighbouring country. Regional tables are established to take up such issues in groups, for example the Baltic countries with respect to their Russian minorities and the Hungarian communities outside Hungary, for example in Romania. The solutions were embodied in legal acts, either national legislation or constitutional amendment, or inter-state agreements or treaties. As and when these problems were reasonably solved, then the EU accession process could advance. On the whole this first Stability Pact may be judged rather favourably. It was a well structured exercise in terms of clarity of objectives and strength and credibility of the incentives. It more or less worked.

The derivative of this model for the Caucasus would be as follows. Principal ethnic conflicts are targeted for resolution. The obvious candidates here are Abkhazia, South Ossetia and Nagorno-Karabakh in the Southern Caucasus and Chechnya in the Northern Caucasus. With respect to the Southern Caucasus, the EU has been following a policy, which is of the same logic as the Balladur Stability Pact, but with much weaker incentives. The EU Commission's Communication on relations with the South Caucasus under the Partnership and Cooperation Agreements of 7 June 1999 [EU Commission, 1999], reviews these conflicts in the context of the EU relationship and aid programmes. This led to a joint EU-Armenia-Azerbaijan-Georgia summit in Luxembourg on 22 June 1999, whose joint concluding declaration noted that the outstanding conflicts "are impeding the political and economic development of the three states", and that "the EU considers that the effectiveness of its assistance is connected to the development of the peace process in the region".

As of now the conflicts have not been resolved, while the EU incentive must be described as a "hint" of enhanced cooperation and aid, rather than strategic leverage. For Abkhazia there is work in the academic community sketching a confederal solution [Coppieters et al., 1999], even if at the official level Abkhazia still strives for absolute independence of Georgia. For Nagorno-Karabakh it was believed that a solution might be found with the support of the Armenian prime minister, before his tragic assassination in the summer of 1999. As for stronger EU incentives, we return to that under Model 3.

Civilised resolution of the Chechnya issue has at various times during the last decade, before the present renewed conflict, been conceivable in the style of the Tatarstan model: i.e. a very high degree of autonomy, but with ambiguity and even the help of contradictions over the use of terms such as "sovereignty" and "statehood" in



constitutional and treaty texts. Leverage of the EU and international community has been limited. During the first Chechnya conflict of 1994-95, the EU delayed signature of a trade agreement until Russia accepted OSCE mediation. With the present conflict, EU foreign ministers have been examining options, possibly sanctions according to press comments. We return to the question how the EU and Russia might interact over Chechnya in a more constructive way under Model 4.

#### b The Balkan Stability Pact – model 2

This initiative is a complex and ambiguous structure. It is a completely different animal to the Balladur Stability Pact. It is an attempt at establishing a post-war order, rather than preventive diplomacy. It is an overarching framework for the whole of the region, which includes EU accession candidates, two international protectorates (Bosnia, Kosovo) and two quasi-secessionist entities (Kosovo, Montenegro) with confused constitutional situations, while excluding one outcast state (Serbia) except for contacts with its opposition leaders. The normative texts of the Balkan Stability Pact rely on the usual norms and policies of OSCE, Council of Europe, EU and the international financial institutions. The main mechanism so far consists of mega-meetings at all levels, but most regularly at senior official level according to three sectoral working tables (see Table 2). Present at these meetings are representatives of x beneficiary states of region, y other OSCE member states, and z international organisations. Attendance of the first meeting of the working tables was around 200 persons. From the first work programme documents of these working tables it appears that the subjects under discussion are all-embracing. These are prepared by a Western staffed secretariat of the High Representative, located in Brussels but independent of the EU. The Stability Pact as such does not have powers or financial resources, although it convenes donor conferences. Nor does it have the role of making hard policy proposals in the manner of the Commission in the EU. The process is more OECD-like. It takes on the basic mode of encouraging policies and cooperation in line with generally received wisdom about the post-Communist transition. The EU says it assumes a “leading role” in the Stability Pact, and is active in the process. However, EU policies towards countries of the region and the international protectorate regimes in Bosnia and Kosovo are a separate matter (see further below under Model 3).

We now assume rather mechanically that there were a Caucasus Stability Pact (CSP), following the Balkan precedent. The CSP would be convened by a coalition of leading state actors: Russia, Armenia, Azerbaijan, Turkey, EU and US, who might form a steering group. CSP conferences and policy working tables would however be open to wide participation, including notably all Black Sea, Caspian Sea and EU countries. The agendas would be rather similar to those of the Balkan Stability Pact (Table 2). Also the CSP would not have powers, nor would it own financial resources.

At this point two adjustments to the Balkan Stability pact model could be considered for the Caucasus. First there is the *extensiveness* of the project, both in terms of how many states participate and the size of the agenda. Here the example of Black Sea Economic Cooperation may be borne in mind. This is much less ambitious in terms of number of

participants, which is more plausible for the Caucasus than the mega-meetings of the Balkans. Also the Black Sea agenda does not aim to be comprehensive. It seems to take up topics or activities on a pragmatic basis. However the level of implementation of even this more limited agenda seems so far to be low. The Black Sea model is more modest, with limited resources and political cohesion. The US proposal for a Caucasus Cooperation Forum suggests a fresh initiative in this family of ideas, possibly resembling its existing South-east European Cooperative Initiative (SECI), which may be regarded as a constructive and useful activity *faute de mieux*, but of less than decisive impact.

Second is the place, if any, of *sub-state participation* in the system (autonomous political entities, regional governments, city mayors etc.). Here the Barents Sea cooperation has an element. Direct relations between oblasts and autonomous republics of the North-West Russia and the regional and national authorities of Nordic states and the EU are provided for. For the Caucasus the analogue raises more sensitive issues, even assuming that the Chechnya conflict is brought under control. It might best be conceived to involve not only the seven autonomous republics of the Northern Caucasus, all now with declining Russian ethnic minority populations, but also the other Southern Russian regions such as Krasnodar, Rostov and Stavropol. It could be a positive influence for these regions and autonomous entities to have normal and cooperative relations with entities of the Southern Caucasus and the rest of the world.

To conclude on Model 2, The Balkan Stability Pact is surely not to be simply photocopied for the Caucasus. In any case it should be slimmed down in participation, with fewer more distant states, maybe the EU represented only by its new Troika (Council Presidency and High Representative, and Commission). Its agenda might also be more selective, as in the Black Sea case, but with more accent on implementation. The sub-national levels of North Caucasus and South Russia could be brought in. But even with these adaptations it is not evident that the model contains sufficient power or incentives to be strategically effective, rather than just to add another conference circuit.

### c Virtual EU membership and post-modern structures – model 3

“Virtual membership” is a generic term used in the “CEPS Plan for the Balkans” [CEPS, 1999], and referred to in some speeches and documents of the EU Commission and party groups of the European Parliament. It means relationships between the EU and non-Member States which come very close to full membership in some respects, even if full membership is politically not desired or acceptable to one side or the other or both. The European Economic Area (EEA) was an early example, under which membership of the single market and acceptance of its legislation is agreed, but there is no political membership of the EU institutions (as Norway today). The idea in the present context is to present to states of the Balkans, and maybe now the Southern Caucasus also, an EU incentive structure of real importance to countries which cannot aspire for full EU membership for a very long time. This model holds out the possibility for full or nearly full participation in the EU’s economic and monetary union without being a member state institutionally. This calls for a different paradigm to that of prior convergence on EU policies. It envisages a jump to very strong application of EU policies where the “virtual

member state” is particularly weak in its governance. For example, jump to free trade or customs union, because existing protection and customs procedures are very corrupt and so should be scrapped, since otherwise real economic development is stunted. Similarly, if the national currency is poorly managed, jump unilaterally into the euro zone (as Kosovo and Montenegro already, or following the Panama and Puerto Rico example, long successfully part of the dollar area). The model also takes advantage of the EU’s present build up of its Pillar II and III competences, for military security (viz. Rapid Reaction Force now being prepared) and police, justice and combating of cross-frontier crime. Accordingly the EU may become capable soon of operational deployment in these new domains of policy. Finally, the model would also comprise special institutional relationships, maximising the links with the many different EU institutions and agencies.

Such ideas are ahead of existing policies, but are entirely consistent with the EU’s actual or potential capacities. The EU needs a formula that would honour its pledges to work for real integration for Balkan countries which are not yet accession candidates. The Stabilisation and Association Agreement (SAA) concept has been proposed by the Commission, and negotiations begin for a SAA with Macedonia, whereas a feasibility study for another SAA has been undertaken for Albania. The content of SAA policy so far may be considered too timid, and failing to reflect the new or emerging development of Pillar II and III policies, and even for Pillar I proposing extremely distant time-horizons (such as 10 years for free trade) and in completely ignoring euro-linked monetary policy questions (of the type argued in the preceding paragraph). However they at least represent some move in the direction of offering a more substantial integration path for countries a long way away from orthodox convergence. For next official policy moves, the SAA mechanism could be offered to South Caucasus states, whose wish to accentuate their European vocation was sufficiently credible.

In this way the “virtual membership” concept could be used in the Caucasus also to reinforce the incentive mechanism of the Balladur type Stability Pact (Model 3 combined with Model 1), and so increase its credibility and force in the Caucasus context, for example to increase interest in settlement of the outstanding ethnic/constitutional disputes such as Abkhazia and Nagorno-Karabakh.

However such ideas lead on into the wider issue of what might become the constitutional structure and order of the numerous small entities of post-Communist Europe, so many of which are currently embroiled in all manner of disorders (ethnic conflicts, corruption, criminality, non-functioning governance in general). These conditions are concentrated in the Balkans and Caucasus. Some of these entities or states have as a result become international protectorates (Bosnia, Kosovo) and some in the North Caucasus are effectively more protectorates than normal regions of Russia, especially where the civilian ethnic Russian population becomes thinner and thinner<sup>3</sup>. What will be the

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<sup>3</sup> Russia’s task is made more difficult by the declining minority of the Russian ethnic population in the Northern Caucasus region. From 1989 to 1998 it is estimated [Tishkov, 1999] that the total population of the Northern Caucasus region stayed almost constant at 5.3 million, but with the Russian ethnic population declining from 1.4 million to 1.0 million, thus from 26 to 19%. Taking into account the likely age profile of this change, with lesser out-migration by elderly people, there has presumably been an even more marked decline in the number of Russians of working age. Moreover the new Chechnya conflict is presumably reinforcing the trends for all except the armed forces.

ultimate place of such entities in the constitutional map. Lots of new little independent states? Such may be the mindset of many Kosovars and Chechens. But neither Russia, nor the EU, nor US agree. However there is also often deadlock in the search for solutions between demands for independence and offers of sub-state autonomy. This is where some contemporary developments in the EU can help enrich the search for new solutions, both intellectually and through such operational concepts for virtual membership.

In another paper [Emerson, 1999a] mainly about the Balkans, ideas are sketched under the title “the Belgian Balkans”. By this is meant a constitutional structure that has five tiers of government, not just three as in the standard federal/confederal model. These five tiers are:

- EU level, with exclusive powers for market and money, and potentially important but non-exclusive competences for civilian and military security;
- Federal state, retaining the status of the “sovereign state” (e.g. member state of UN, EU institutions) even if the residual functions of this government become quite small in relation to the functions of all tiers;
- Sub-federal state/region, with territories largely corresponding to ethnic identities, but with strong anti-discrimination guarantees (of course outlawing of ethnic cleansing);
- Cultural/linguistic communities overarching territorial frontiers, with political representation as such and powers for certain cultural, educational etc. fields of policy;
- Local government of the conventional kind.

An even more innovative model is that of the Northern Ireland agreement between the UK and Ireland and the communities of Northern Ireland, now entering into force, which has six tiers:

- EU level, overarching competences;
- Council of the Isles, a multi-state (UK, Ireland) and multi-sub-state (Northern Ireland, Scotland, Wales) political forum, with the different levels present in a non-hierarchical mode;
- Federal UK level (to be more precise, the UK is now a new hybrid species, mixing the unitary state and an asymmetric confederation)
- All-Irish level, with the sovereign state Ireland and the sub-state Northern Ireland managing certain competences together as equals;
- Sub-state autonomy (Northern Ireland);
- Local government of the conventional kind.

Elements from these Belgian and British-Irish models may now be summarised for their relevance to the Caucasus:

- For the problems of ethnic conflict there are solutions other than the standard menu of unitary state, federation, confederation or secession, in which competences for cultural/religious/language questions can be devolved to

structures that overlap territorial frontiers. (The Nagorno-Karabakh problem has considerable logical similarities to that of Northern Ireland);

- For the problems of asymmetry between the size and structure of neighbouring states, there can be solutions which are themselves asymmetric, with sovereign states having dealings with sub-state entities (of course relevant for big Russia and its very small Northern Caucasus autonomies, alongside the small sovereign states of the Southern Caucasus).
- The EU institutions give many kinds of legal or political guarantees to its member states and sub-states, making manifestly obsolete old notions of “independence”. The idea of “virtual membership” of the EU thus attempts to provide these benefits also to entities that cannot soon become full members, but still badly need strong support to overcome non-functioning state structures.

The general intuition then is that some old, intractable, bitter conflicts can be overcome only by insertion into new and powerful constitutional structure – “post-modern” as they are called by some political scientists. This is also pointing the way to “exit” strategies for the international protectorates. The “exit” is not into the world of multiplying small independent states of the old tradition, but into the new Europe of integrated, post-modern structures.<sup>4</sup>

#### d The Caucasus Dimension – model 4

This draws on the language and logic of the “Northern Dimension” relationship between the EU, Russia and the Baltic state accession candidates. This stands for a strategic intent by the EU and Russia to establish first and foremost a good level of mutually trusting and advantageous cooperation, notably where there is a common frontier. It also stands for trying to make the process of EU enlargement, where this involves mutual frontier states, as harmonious as possible.

In the actual Northern Dimension the content involves important infrastructure networks for transport and power transmission, major environmental programmes, potentially large scale investment in oil/gas sector for which EU is the main market and cross-border cooperation between regional governments and civil society institutions.

A Caucasus Dimension would also look for a constructive and substantial model for joint pursuit of common objectives, above all the stability and socio-economic progress in the whole of the Caucasus region. It would also aim at strengthened protection of both the Russian and EU hinterland from terrorist/criminal/societal threats associated with extremist Islam.

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<sup>4</sup> For some political scientists these issues are condensed into the triple concepts of “pre-modern”, “modern” and “post-modern” states [Cooper, 1996]. The pre-modern is the feudal, tribal, clan, or even mafia-governed community; the modern is the nation-state which had its prime in Europe in the period between German/Italian nation-forming in the 1880s and the beginnings of the EU in the 1950s (which was the most disastrous period in world history, by number of war deaths). The post-modern is the Europe of complex, multi-tier structures as illustrated above, to which could be added a long list of global-international commitments. Using this language the idea is that the small, disordered communities of post-communist Europe should best be helped jump in one move from the pre-modern to post-modern state, rather than transit first through an old-fashioned and obsolescent notion of an independent state, a notion which is in fact worse than obsolescent: it leads to ethnic cleansing politics, which is why it is objected to be the international community. However the international community has been less effective in devising alternative positive strategies, which is why such ideas as “virtual EU membership” are advanced.

The Caucasus Dimension would be combined with the Virtual Membership of Model 3 for the countries of the Southern Caucasus, and take Turkey's status as full membership candidate as a credible long-term prospect. The new dynamics in the Turkish situation are especially important, because of its economic, political and societal aspects. The Turkish economy grew on average almost 5% per annum, and this should continue or accelerate. The Turkish GNP of \$ 230 billion per annum already largely exceeds that of Russia (\$ 130 billion). The political-societal dynamics clearly go in the direction of convergence on modern European norms, with the special feature of making a success of a modern, secular Islam. This is of course extraordinarily important as role model for those parts of the Turkic and/or Islamic communities of Russia and for Central Asia in general. The EU could think in terms of a pre-accession strategy with Turkey that helps projects this model into Russia, starting in the North Caucasus, and also on into Central Asia.

The EU and Russia could also cooperate systematically in building Russian spurs to the Trans-Caucasus transport projects, rather than confine them to the Southern Caucasus. This is hinted at by the EU Commission [1999], and recommended also on the Russian side by Tishkov [1999].

Finally the EU could also envisage deploying its emerging competences in Pillars II and III to cooperate with Russia in curbing terrorism and trafficking of arms and drugs, for example in relation to the presently porous frontier between Georgia and Chechnya. Thus the EU might in the future help achieve more efficient and civilised Russian methods in handling the problems.

In these ways the EU and Russia could come to be as mutually trustful and supporting as neighbours on both Northern Dimension and Caucasus Dimension fronts. Even if the conditions of these two regions are greatly different, the common factor would be reliable good neighbourliness between the two large European powers. As preparations for a new Russian presidency advance, and the categorisation of strategic attitudes takes shape for different zones of Russia's external relations, such ideas warrant exploration. They may seem remote today, but Russia needs alternative scenarios to perpetual guerrilla war and impoverishment of its Southern frontier territory.

For the Caucasus Dimension to become plausible there would have to be a robust mutual understanding over the extraordinarily difficult, tragic and emotive subject of Chechnya. Criticisms of Russian military methods in recent months are made both inside Russia as well outside, with serious arguments. We do not go into that here, but rather try to anticipate a situation in a few months when the heavy fighting ends, and the future has to be addressed. The stylised interpretation of this second Chechnya war may become categorically different to that of the first Chechnya war of 1994-95. The first war was called in the titles of two Western books "*A Small Victorious War*" [Gall and De Waal, 1997] and "*Tombstone of Russian Power*" [Lieven, 1999]. While not idealised, there were notions of the Chechnyans as fighting a heroic struggle for post-colonial independence. The second war has seen a population hijacked by a small army of fanatical extremists, supported by professional terrorists from the outside, intent on

creating a fundamentalist Islamic Confederation of the Northern Caucasus and spreading fundamentalist Islam up into the Russian heartland. Before the first war it was discussed whether Chechnya would become virtually independent, with some elements from the Tatarstan model. After the second war the outlook is basically for an armed Russian protectorate for as long as the mountains are the hold-out of guerrilla groups. It might even be that much of the population will indeed want Russian protection, in a reversal of the situation at the end of the first war.

#### e A package tailored for the Caucasus

This review of a number of models can now be put together, drawing on lessons from these different experiences and defining a specific package for the Caucasus.

All four of the models discussed above have their value, but also limitations for the Caucasus. No one of them is adequate for this multi-faceted situation, which is even more complicated and dangerous than the Balkans. In particular, while the words “Caucasus Stability Pact” sound appealing, a lightly adapted copy of the Balkan Stability Pact will not be adequate (it is not even adequate for the Balkans).

Instead a structured combination of the four models is advocated:

- There should be some light overarching structure for all seriously interested actors, to some extent like the Balkan Stability Pact style, but slimmed down and focusing more clearly on regional integration than politically appropriate for the former Yugoslavia;
- There should be a return to the Balladur Stability Pact style targeting of outstanding ethnic/political conflicts, but backed up with EU integration incentives (virtual membership ideas) and enriched constitutional concepts from contemporary Europe (e.g. Northern Ireland, Belgian federalism);
- There should be a Caucasus Dimension to EU-Russian relations, building on the positive aspects of the “Northern Dimension” model, but introducing important new elements specific to the Caucasus, such as common interests in protecting all of Europe from incursion of terrorism, fanaticism and criminality from the East.
- The Turkish potential for radiating its economic dynamism with a model of secular, moderate Islam to the Caucasus region (and beyond) should be internalised into EU policy without delay, thus giving specific content and value to its pre-accession strategy.

In code language for policy planners, Model 1 should be enhanced with new elements from Model 3, Model 2 should be used but not too extensively nor expected to solve the problem alone, and a new Model 4 project is required.

#### **4. Conclusions**

There is surely a strong case for a fresh regional initiative to promote peace, stability and economic, political and societal progress in the whole Caucasus area, Northern and Southern together. Maybe electoral politics in Russia and the US, unpreparedness in the

EU and divisions between the three Southern Caucasus states will prevent this, meaning instead a pact with the devil.

However now a number of proposals are emerging. The most recent is from President Demirel of Turkey, who proposed a Caucasus Stability Pact in Tbilisi on 15 January 2000. While the general idea is positive, it should not lead to an overhasty presumption in favour of a Caucasus photocopy of the Balkan Stability Pact. Instead more thought should be given to some fundamental options, since the Balkan Stability Pact model is itself as yet far from convincing, while the Caucasus situation is maybe even more difficult than the Balkans.

The argument of this paper is that there is a different approach that should be considered. This would combine something closer to the first Balladur Stability Pact adapted for the Southern Caucasus, enhanced by the incentive of virtual membership of the EU, since full membership is too far away and time cannot wait. In addition, for the Northern Caucasus and other South Russian regions the EU should propose to Russia deepened cooperation. This could be analogous to the “Northern Dimension” policy in some respects (infrastructure and oil/gas sector developments), but obviously much different in other respects. In particular there would be a crucial attempt to converge on policies towards Islam, in two ways. First, the EU and Russia would collaborate to combat infiltration by terrorism supported by other parts of the Islamic world, and drug and weapon traffickers. Second, the EU would anticipate the place of a modernised Turkey as a future member state in order to help project an appealing model of a modern, secular and moderate Islam integrated with Christian societies. Such a model is potentially of great importance not only in the Caucasus, but also elsewhere in Russia and parts of Central Asia where there are large Russian populations (especially Kazakhstan).

It is a positive point of great importance that common political and humanitarian norms have already been adopted (or will be soon) by Russia and the Southern Caucasus states through the codes and conventions of the OSCE and Council of Europe (Georgia has now acceded to the Council of Europe, and Armenia and Azerbaijan are expected to follow). The EU should put its weight behind trying to develop an increasingly effective role of both organisations in the Caucasus region.

Solutions have to fit also with a vision of what is becoming “post-modern” Europe, where the old nation state is overlaid by overarching policies for markets money and security, and undercut by decentralisation with complex patterns of federalism and overlapping competences between regions and states (see Belgian federalism, or the new Northern Irish agreement). Put in other words, “the problem ... is being framed in 19<sup>th</sup> century concepts of borders and independence, whereas borders will be of decreasing relevance in the Europe of the 21<sup>st</sup> century.” [Carl Bildt, *Financial Times*, 19 January, 2000]. This quotation was about Kosovo, but the argument is of wide application in the ethnically complicated parts of post-Communist Europe, including both Northern and Southern Caucasus. For example the concluding Declaration of the OSCE Istanbul summit of November 1999 cited no less than 12 cases (of states or entities) where it was searching for the resolution of ethno-political conflicts or tensions without recognition of



independence or the changing of state borders (Abkhazia, Bosnia and Herzegovina, Chechnya, Crimea, Croatia, Kosovo, Macedonia Montenegro, Nagorno-Karabakh, North Caucasus, South Ossetia, Trans-Dniester, F.R. Yugoslavia). It may be noted that the problems of Russian minorities in the Baltic states apparently did not require mention even in such an extensive catalogue, and indeed that no EU candidate country required mention. This is suggestive of the “soft power” of the EU system, even before it completes its present agenda of reform of existing instruments and development of new ones in the security area. But the challenge of the Balkans and the Caucasus is now to find ways to be similarly effective beyond the reaches of the conventional accession process.

**Table 1: Models of regional cooperation applied to the Caucasus**

**Model 1**

*Balladur Stability Pact type:* Armenia, Azerbaijan and Georgia are offered incentive to settle specific conflicts over Nagorno-Karabakh & Abkhazia, with prospects for greater EU aid and integration

*Model 2*

*Balkan Stability Pact type:* Russia, Armenia, Azerbaijan, Georgia, and Turkey join with EU, US, and other Black Sea and Caspian Sea countries and international organisations for comprehensive dialogue on policies and cooperation possibilities

**Model 3**

*Virtual EU membership:* EU adopts a more pro-active approach to progressive integration of Georgia, Armenia and Azerbaijan into its economic, monetary and security policies, with institutional linkages. EU also suggests constitutional packages for solving ethno-political conflicts.

*Model 4*

*Caucasus Dimension* EU, enlarging to include Turkey, and Russia deepen cooperation over shared objectives for regional development, security and stability.

(-, less ambitious versions)

*Black Sea type:* A political framework for engaging in *ad hoc* cooperation on practical issues where feasible

(+, add decentralised dimension)

*Barents Sea type:* Regional governments/ autonomous entities of North and South Caucasus join sovereign states in aspects of process

**Table 2: Stability Pact agenda – Balkan style**

Institutional

- Contact Group of major powers
- Mass meetings of all countries of the region, EU and all its member states, and most other OSCE countries and international organisations, at several levels: summit, foreign ministers, working tables (human, economic, security - as below)

- High Representative, with substantial Western secretariat

Human dimension

- Refugees: status, return
- Human rights & national minorities
- Regional institutional development, civil society, educational cooperation

Economics & aid

- Trade policy and customs/frontier issues
- Regional development, business promotion, tourism, environment
- Regional infrastructure: oil/gas pipelines, power transmission, transport
- Humanitarian aid: food, shelter, medical

Security

- Conflict prevention, resolution & peace keeping
- Border control, criminality, terrorism
- Military security: confidence-building measures, disarmament

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## **Annex A**

### **Demographic statistics of the Caucasus**

#### **Russian Federation, Northern Caucasus**

Adygeia	541 000
Chechnya	862 200 (early 1990s estimate, current numbers unknown)
Dagestan	2 150 000
Ingushetia	303 500 (early 1990s estimate, large refugee inflows since)
Karachaevo Cherkassia	436 000
Kabardino-Balkaria	790 000
Northern Ossetia	663 000
Total, 7 entities, approx.	5 500 000

#### **Southern Caucasus**

Armenia	3 700 000
Azerbaijan (Nagorno-Karabakh)	7 500 000
Georgia (Abkhazia) (Adzhari) (South Ossetia)	5 400 000 524 000 100 000
Total of Northern and Southern Caucasus approx.	25 100 000

Note: these figures come from a variety of sources and should only be regarded as approximate, and in any case take no account of recent displacements as a result of conflicts.

## Annex B

### Selected Regional Initiatives in Europe

**Barents Sea regional cooperation.** Initiated in 1993, with the following key points:

- sovereign state level: Russia, the Nordic countries and EU (Commission); observer status for some EU members states, US, Canada and Japan
- sub-regional level: regional administrations of Finland, Norway and Sweden close to the Barents Sea together with the Murmansk and Archangelsk Oblasts, the Karelia Republic and the Nenets Autonomous Region
- sectors of cooperation: sustainable regional development, environment, nuclear safety, regional transport and telecommunications infrastructure, energy development, people-to-people contacts, educational and cultural exchange, regional government collaboration (across national borders)
- EU and EU member state funding of cross-border projects

**Black Sea Economic Cooperation.** Initiated in 1992, including Russia, Georgia, Turkey, Greece, Bulgaria, Romania, Moldova, Ukraine, Albania, Armenia and Azerbaijan. Intended to facilitate trade, investment and cooperation in the region. Numerous activities initiated: status of organisation with Istanbul secretariat, parliamentary assembly, meetings of mayors, trade and development bank, declaration of intent for free trade, university cooperation, studies centre in Athens. Implementation limited so far.

**The Balladur Stability Pact.** This started as an initiative in preventive diplomacy, which France proposed for EU sponsorship in 1994, and was codified in the Charter of Paris of 1995. The idea was to ensure that the candidate states for EU membership from Central and Eastern Europe should clear up outstanding problems associated with their mutual frontiers and national minorities. This concerned not only future intra-EU matters, such as the situation of the Hungarian minority in Romania, but also future EU frontier questions with Russia, such as the situation of the Russian minorities in the Baltic states.

**Balkan Stability Pact.** Initiated by the German Presidency of the EU in July 1999 at Sarajevo, following the Kosovo conflict. It provides the main regional political forum, with a developed structure. It does not have powers in itself, but is a comprehensive framework with a well-established normative basis (human rights, economic principles etc.) and inclusive participation of the countries of the region, neighbouring countries, international organisations, and EU/Russia/US. Key features include:

- Triple dimensions – economic, political, security – as in OSCE
- Economic agenda: trade policy, regional development, regional infrastructure, private sector development, investment charter, Danube navigation, anti-corruption.
- Democratisation and human rights agenda: human rights and national minorities, ombudsman initiative, refugee return, parliamentary cooperation, good governance, media, gender, education.

- Security agenda: crime and corruption, migration, police and judicial reform, arms control, confidence building measures, non-proliferation, de-mining, conflict prevention, crisis management.
- An all-embracing agenda, accommodating cooperative bilateral/regional actions coherently alongside major moves towards EU accession/association.

**Northern Ireland Agreement.** Signed in 1998-9, implementation in process. The key point in general is that a complex structure is created in which a region of one sovereign state (Northern Ireland in UK) has structured relations and elements of shared sovereignty with another sovereign state (Republic of Ireland), as solution to a long and violent conflict between two communities of different religious (Protestant/Catholic) and national (UK/Irish) affinities. The system has the following features:

Autonomous Northern Irish government and parliament for many policies

- North-South Ministerial Council, where the autonomous Northern Irish executive and government of Ireland meet as equals for several domains of policy and cooperation
- Council of the Isles, at which the sovereign states of UK and Republic of Ireland meet with the autonomous governments of Northern Ireland, Scotland, Wales the Isle of Man and the Channel Islands. Note that Scotland and Wales are “nations” and represent “nationalities”
- Many overarching policies of EU apply in all territories
- Future sovereignty of Northern Ireland (i.e. in UK or Republic of Ireland) left open for revision, to be decided by referendum
- Citizens of Northern Ireland can hold either UK or Irish passports or both.

## **Report on a Brainstorming Conference at CEPS, Brussels, 27-28 January, 2000**

The idea of holding this event was suggested and supported by Max van der Stoep, OSCE High Commissioner on National Minorities. Max van der Stoep, concluded the conference by reasserting his strong support for the initiative and expressing the hope that the above event would mark the beginning of a future project on the subject, as suggested by Ambassador Segiu Celac and the chairman of the brainstorming session, Michael Emerson.

Lead contributions were mainly through papers by independent academic and NGO experts, but there was active participation by officials of the EU and international organisations (OSCE, Council of Europe, NATO) as well diplomatic representatives of all countries of the region, including Russia, Turkey and Iran.

The purpose of the brainstorming was to think about long-term perspectives for the region and in particular how to turn the trends away from conflict towards normality. In order to achieve this aim the following approach was adopted. During the first day of the meeting, a series of presentations followed by their discussion aimed to provide an informative coverage of the major issues involved, by accounting both for their geographic and thematic dimensions. During the second day instead, presentations and discussions were directed towards possible policy avenues. In particular two complementary project proposals for the formulation of a *Stability and Security Pact for the Caucasus* were presented by **Sergiu Celac**, Romanian Ambassador at large and **Michael Emerson**, Senior Research Fellow at CEPS.

On the first day, thirteen presentations, ten of which were backed by written papers aimed to touch upon the following issues: ethnic and religious conflict in the North and South Caucasus, with special attention being paid to Chechnya in the north and the Georgia-Abkhazia and Nagorno Karabakh questions in the south, economic and oil questions, and finally military and security matters.

### The North Caucasus and the Chechnya conflict

The morning session began with a presentation by **Alexandru Liono** (DUPI, Copenhagen) of his recent paper: *'The Chechen Problem: Sources, Developments and Future Prospects'*. The presentation analysed the historical, cultural and religious roots of the Chechen conflict concentrating in particular on the impact of *Wahabism*, exported from the Arabian peninsula, on the Chechen society, socially organised through the *teip* structure and religiously dominated by a diametrically opposed branch of Islam: *sufism*.

**Anna Matveeva** (RIIA, London) then presented some of the arguments of her paper: *'The North Caucasus: An Analysis of Current Issues'*. Dr Matveeva's presentation concentrated on Dagestan and Chechnya and analysing the different contexts of the two republics and thus the Chechen failure to export Islamic irredentism in Dagestan in 1999.

**Jeremy Moakes** (Political Affairs Directorate, Council of Europe) gave an account of humanitarian and refugee conditions in the North Caucasus; drawing from the experience of his travels with the Human Rights Commissioner in the Council of Europe's in Chechnya, Dagestan and Ingushetia. Mr Moakes pointed out the evident difficulty of the transition from military to civilian structures in the areas, the recurrent Russian distrust of locals, the rampant corruption, and the colossal destruction of the Chechen conflict.

The first three presentations on the North Caucasus were followed by an open discussion session. **Denis Sammut** (Links, London) pointed out that a low intensity civil war is and will increasingly be played out between Sufi and Wahabi branches of Islam, especially as the increasingly religious young population of the North Caucasus takes a decisive stand regarding its religious affiliations. His second point concerned the question of political negotiations following the second Chechen War. Who is to conduct the negotiations given Chechen President Maskhadov's lack of control over his people? **Anna Matveeva** added that while Maskhadov remains the only legitimate ruler in Chechnya, the current fragmentation of Chechen society implies that successful negotiations would have to involve a selection of representatives of the Chechen people, including field commanders and local leaders.

#### The South Caucasus: failure of integration and the Georgia-Abkhazia conflict

Following the first three presentations and their discussion, we moved on to the South Caucasus and in particular on the two major conflicts in the region: the Nagorno Karabakh and the Georgia-Abkhazia questions.

**Bruno Coppieters** (Free University of Brussels) began by providing an overview of the South Caucasus and assessing the failure of integration in the region. Mr Coppieters concentrated on the lack of a single hegemony in the region forcing integration together with the persisting importance attached to concepts of sovereignty and independence in Georgia, Armenia and Azerbaijan, which prevent these states from voluntarily transferring substantial state competence to a supra-national level.

Jonathan Cohen, (Conciliation Resources, London) followed the discussion by assessing the current state of the persisting conflict between Georgia and Abkhazia. Mr Cohen concentrated first on the process of negotiation between the parties under the auspices of the UN and Russia and second on the debate on Internally Displaced Persons (IDPs), who represent one of Georgia's major concerns given the huge demographic changes following the 1992-3 war.

**Viacheslav Chirikba** (University of Leiden) also addressed the Georgia-Abkhazia question, and presented his recent article: *'Prospects for federative compromise and regional security between Georgia and Abkhazia'*. Mr Chirikba's presentation offered some suggestions regarding a possible approach to a solution of the conflict. Mr Chirikba stressed the importance of political equality to be satisfied through an interesting combination of federal and confederal constitutional principles.

The first three presentations covering the failure of South Caucasian integration and the Georgia-Abkhazia question were followed by a discussion. **Ambassador Sergiu Celac** pointed out first that the absence of hegemony in the region would not prevent integration. Rather, within an increasingly global world, a joint effort by the major external players and the local players may prove the most desirable option. Second, on the utility of Irish and Baltic models of cooperation, the diverse conditions in these countries and in the Caucasus, both in terms of democratic political structures and in terms of material wealth, render these models of limited utility to the Caucasus. **Bruno Coppieters** responded by clarifying that the absence of hegemony simply implied that a balance of power approach to the region would not deliver integration. On the other hand, new constitutional solutions based upon experiences in other European cases may prove more fruitful, especially given the dynamic nature of several West European models.

**Ambassador Abashidze** (Embassy of Georgia, Brussels) asked whether the Belgian model could be of any use in working out a federal solution between Georgia and Abkhazia. **Viacheslav Chirikba** responded by suggesting that a solution to the Abkhaz question would certainly comprise both federal and confederal elements and that the Belgian model certainly provides useful parallels. However, the Belgian model is itself still in the making, and the ultimate balance between federal and confederal elements is yet to be determined. **Michael Emerson** then pointed out the further parallels between the Georgia-Abkhazia and the Serbia-Montenegro cases and between the situation in Chechnya and that in Tartarstan.

#### The South Caucasus: the Nagorno Karabakh conflict

Moving on to the Nagorno Karabakh, the ongoing conflict between Armenia and Azerbaijan, **Sergiu Celac** presented his paper: *'The Nagorno-Karabakh question: An Update'*. Ambassador Celac pointed out the key importance of peaceful settlement of this question, which represents the only major inter-state conflict in the Caucasus. The need to break away from the current cease-fire is thus imperative to the overall stabilisation of the South Caucasus and will be achieved through the adequate formulation of a package deal with multiple conditionalities.

**Brenda Shaffer** (Harvard University) concluded the morning session by presenting her recent article on the influence of Iran and Islam on the South Caucasian republics. *'Islam, Iran and the Prospects for Stability in the Caspian Region'*. Ms Shaffer commented on the need to treat the Caucasian peoples and decision-makers as rational actors and importance of viewing the so-called 'Islamic threat' in perspective, accounting for the large diversity within Islam and Iran's relatively mild reaction to the Chechnya wars when compared to the harsher western reactions, despite Iran's close connections to the region. She also suggested that conflict resolution in the region can only materialise with the joint participation of local actors as well as Russia, Turkey, Iran, the EU and the US.

Following the presentations, **Jaroslav Pietrusiewicz** (OSCE Conflict Prevention Centre) commented on the utility of the OSCE role in conflict resolution and of the Permanent



Representative of the Chairman in Office in particular. **Michael Emerson** pointed out the future potential role of the OSCE and the Council of Europe once all three South Caucasian Republics will join these organisations.

**Arif Mamedou** (Azerbaijan Embassy, Brussels) commented on the EU's present non-involvement in conflict resolution, despite its comparative advantages through the Azerbaijan-Turkey connection, its interest in Caspian oil and its INOGATE, TRASECA and rehabilitation projects. With the development of the European CFSP, the EU's potential role in the region is further enhanced. **Artem Aznaurian** (Armenian Embassy, Brussels) noted that conflict resolution in the Nagorno Karabakh would require the recognition of Karabakh itself as a critical party to the negotiations as was the case at the Budapest summit. It is important to recognise that self-determination must not imply secession.

#### Economic survival strategies and the political economy of Caspian oil

The afternoon session aimed to address some of the most pressing economic and security questions in the Caucasus. Economic questions included first economic survival strategies in the light of conflict in the North Caucasus and second the plans and prospects for oil production and pipeline transportation in the region. The discussion of security questions instead attempted to highlight the strategic security priorities and concerns both of local actors and of the wider international community.

**Alexandru Liono** (DUPI, Copenhagen) presented a second paper: *'Economic survival strategies in the North Caucasus'*. Mr Liono examined the paternalistic and entrepreneurial modes of interaction of people in the North Caucasus, both within republics and most importantly between them. Mr Liono accounted for the legal and illegal mechanisms through which North Caucasian peoples survive in the light of persisting conflict, economic inequality and war-torn economies.

Moving on to the other extreme of the economic spectrum, two complementary presentations addressed the current state and the future prospects of the Caspian oil business. **Dr. Terry Adams** (former president of AIOC) presented his paper: *'Caspian Hydrocarbons, the Politicisation of Regional Pipelines, and the Economic Destabilisation of the Caucasus'*. Dr Adams was followed by **Thomas Waelde** (University of Dundee), who presented his recent article: *'International Good Governance and Civilised Conduct among the States of the Caspian Region: Oil and Gas as a Lever for Prosperity or Conflict'*.

**Dr Adams** focussed on the question of resources, on the costs of oil extraction and on the options for pipeline transportation. **Dr Waelde**, on the other hand, analysed the political dimension of the Caspian oil business. Currently Caspian oil is playing into the negative dynamics of political conflict in the region. Only when commercial interest is given priority over geopolitical games will the oil business in the Caspian attain its potential and in turn begin to play into the positive dynamics of political peace and integration in

the region. Both presenters support, for both economic and political reasons, the development of multiple pipelines in the region.

Following the presentations **Michael Emerson** commented on the inadequacy of the geopolitical zero-sum game between Russia and the US and the necessity of an integrationist solution to resolve conflict in the Caucasus. In order to reach such a solution it is necessary to demonstrate that real material benefit can be derived from a strategic integrationist policy choice. **Archil Gegeshidze** pointed out a potentially virtuous circle could be created by political stability and economic cooperation in the region. Healthy economic competition and the development of a Eurasian transport corridor could lead to long-run economic development and promote mutual interests and understanding, which would gradually take precedence over negative forces of geopolitical competition and weak institutional structures.

**David Turr** (European Commission) asked how important the precise format of the pipeline infrastructure is to European markets. Would it make much difference whether the pipeline transported oil from Supsa or Odessa or to Costanza? **Terry Adams** responded by pointing out that over 300m barrels a day could be absorbed by Black Sea and Southern European areas, displacing Middle Eastern and North African crude. Caspian oil is environmentally friendly and depending on transportation costs could also be highly competitive. **Denis Corboy** (former EU Head of EU Delegation to Georgia and Armenia) added that in an enlarged EU, which may one day include both Moldova and the Ukraine, the relevance of Caspian oil is further enhanced.

#### Military and security questions

The second half of the afternoon was dedicated to security and military questions. **Oksana Antonenko** (IISS, London) discussed the evolution of Russia's military and security doctrines especially in the light of the recent Chechnya war. Dr Antonenko presented her paper: '*Russia's Policy in the Caucasus: the Importance of the Security Dimension*'. The presentation assessed the gradual evolution of Russian foreign and security policy thinking. The exclusive focus on military policy is gradually giving way to a more diversified approach in the light of economic constraints, the establishment of the independent South Caucasian states and the eruption of ethnic conflict in the North Caucasus.

Concluding the first day, **Archil Gegeshidze**, (Head, Foreign Policy Department, State Chancellery, Tbilisi) discussed security questions in Abkhazia and Ossetia from a Georgian perspective. Mr Gegeshidze pointed out the multi-ethnic character of Georgia and the Soviet roots of the current internal ethnic problems in the country, including in particular the Russian role in the 1992-1993 Georgia-Abkhazia war. He also noted the additional complicating factor posed by Russian pressure on the Abkhaz in the Georgian-Abkhazian negotiations.

During the final round of discussion **Denis Sammut** addressed the serious question of Georgian and Azeri security in the light of what is perceived to be a Russian threat driven

by Russia's actions in the North Caucasus. **Oksana Antonenko** responded stating that Georgia and Azerbaijan, rather than fearing a Russian attack, fear a spill-over of Russian and Chechen criminality. **Anna Matveeva** noted that Georgia would have to make concessions perhaps in terms of allowing Russian troops to monitor the Chechen border in return for a change in the Russian stance over Abkhazia. There are also common interests between Russia and Georgia, such as the shared fear of the political Islam or the substantial trade potential between the two countries, which could pave the way to a more constructive relationship between them.

### Exploring policy options for security and stability in the Caucasus

The aim of the second and final day was to produce concrete policy proposals to tackle the region's multiple problems – of ethnic conflict and stunted economic development. What joint action could the major powers, the international organisations and local actors take to address current and future potential conflicts in the Caucasus, their ethnic and religious roots and causes and their economic and security implications? What are the prospects for cooperation within the region on security; economic and political questions and for a wider stability pact for the Caucasus comprising external international actors?

The session opened with three presentations by **Archil Gegeshidze**, **Sergiu Celac** and **Michael Emerson**, two of which were backed by written papers offering potential courses of policy action. **Sergiu Celac**, presented the main points in his second paper: *'Prospects of a Stability Pact for the Caucasus'*. Given the striking similarity between the conditions in the conflict-ridden Balkans and Caucasus, Ambassador Celac suggested the initiation of a Stability Pact for the latter. A Caucasus Stability Pact would however only include the independent Republics of the South Caucasus. The more or less explicitly declared 'European vocation' of the South Caucasian republics, with the inclusion of Azerbaijan, following the momentous decision taken at the Helsinki European Council in December 1999 to include Turkey as a candidate for EU enlargement, suggests the need for a greater EU involvement in the region. Clearly, such an initiative would also have to include the other major actor in the region, namely Russia. However, Ambassador Celac called for a wider participation which would include Turkey, the central Asian states on the other side of the Caspian sea, the countries on the western coasts of the Black Sea and the US. The initiation of such a project would require considerable intellectual input from both officials and independent policy analysts in the region. In the light of their experience in the Balkans, the CEPS could take the lead in this initiative producing a publication, and organising a series of conferences in the region focussing the areas of coverage on specific issues.

**Michael Emerson** (Senior Research Fellow, CEPS) then presented the main arguments of his paper: *'Approaches to the Stabilisation of the Caucasus'*. Mr Emerson's paper embraced Ambassador Celac's ideas but attempted to sketch out a model comprising the whole of the Caucasus, North and South. For the Southern Republics, whose 'European vocation' cannot be denied, one could envisage the structure of the Balkan Stability Pact, which would however be rendered effective through the prospect of some form of 'EU virtual membership'. In this way one could hope to attain similar results as those

delivered by the Balladur Stability Pact in Central and Eastern Europe, where the prospect of full membership was a sufficient incentive to bring about extensive conflict resolution. For the North Caucasus instead one could envisage that the EU and Russia developing a “Caucasus Dimension” to their cooperative relations, taking account of the experience already acquired under Finland’s initiative for a “Northern Dimension” for the Baltic and Barents Sea states and the EU. A ‘Caucasus Dimension’ would both provide a possible avenue for EU relations with the North Caucasian Republics and create a second channel for EU-Russia relations. Linking the Southern and Northern elements, a Pan-Caucasian Forum could be established which would include all of the local actors, Russia, the EU, the US, Turkey and Iran. The forum would act as a high level discussion chamber, addressing all major issues, including conflict resolution through constitutional means, security guarantees, civil society development and economic development for both the oil and other sectors.

The brainstorming conference ended with the announcement of an initiative by **Sergiu Celac** and **Michael Emerson** to constitute a ‘**Caucasus Task Force**’, consisting of independent experts, in order to work out in greater operational detail the ideas expressed by political leaders of the Caucasus and in Turkey for some kind of Stability and Security Pact. There would be contact and discussion between the Task Force and relevant officials and, where appropriate, political leaders. Action would begin through the work of a core group, consisting of independent participants in the brainstorming conference in this initiative.

## **Brainstorming Session - Programme**

# **The Future of the Caucasus after the Second Chechnya Conflict**

**27<sup>th</sup>/28<sup>th</sup> January 2000**

**Centre for European Policy Studies  
Place du Congrès 1  
1000 Brussels**

CEPS is holding a brainstorming session on the Caucasus in Brussels on the 27<sup>th</sup> and 28<sup>th</sup> of January. The purpose is to think about long-term perspectives for the region and in particular how to turn the trends away from conflict towards normality. The programme aims first to provide both geographical and thematic coverage and second to direct discussion towards possible policy avenues. Each section of the meeting will be opened by the presentation of written papers and will be followed by general discussion. We hope to produce a publication very soon afterwards, including the main presentation articles, their discussion and the broad conclusions of the meeting.

*Organiser, queries: Nathalie Tocci, Tel 00 32 2 2293929, e-mail [nathalie.tocci@ceps.be](mailto:nathalie.tocci@ceps.be)*

*Support of OSCE High Commission on National Minorities, German Marshall Fund of the United States and NATO is gratefully acknowledged.*

### **Thursday 27<sup>th</sup> January at CEPS**

Morning session: 08:45-1:00

*Introductory remarks 9:00-9:15*

**Michael Emerson** (Senior Research Fellow, CEPS) and **Max Van der Stoel** (High Commissioner on National Minorities, OSCE)

*Regional overview of ethnic and religious conflict in the Caucasus 09:15-10:15*

The current state of the inter and intra-state conflict in the Caucasus, their ethnic and religious dimensions, and their consequences in terms of refugee plight, minority rights and humanitarian conditions.

- Chechnya. **Alexandru Liono** (DUPI, Copenhagen) on the historical, cultural and religious roots of the Chechen conflict:  
*'The Chechen Problem: Sources, Developments and Future Prospects'*

- Instability in the North Caucasus. **Anna Matveeva** (R.I.I.A., London) on ethnic conflict in Chechnya, Dagestan and Karachaevo-Cherkessia  
*'The North Caucasus: An Analysis of Current Issues'*
- Humanitarian conditions in Chechnya, Dagestan and Ingushetia. **Jeremy Moakes** (Political Affairs Directorate, Council of Europe).

*Discussion 10:15-11:00*

*The Southern Caucasus 11:00-12:45*

- South Caucasus Overview. **Bruno Coppieters** (Free University of Brussels).
- The Georgia-Abkhazia conflict.

**Jonathan Cohen** (Conciliation Resources, London) will present the main arguments of a 1999 volume which he has edited.

*The Georgia-Abkhazia conflict and peace process*

**Viacheslav Chirikba** (University of Leiden) will present his article  
*Prospects for federative compromise and regional security between Georgia and Abkhazia.*

- *An update on the Nagorno-Karabakh question.* **Sergiu Celac** (Ambassador at large, Romania).
- Religion and stability in the South Caucasus. **Brenda Shaffer** (Harvard University) will present her recent work on the influence of Iran and Islam on the stability of the South Caucasus.  
*Islam, Iran and the Prospects for Stability in the Caspian Region*

*Discussion 12:45-1:30*

Lunch at CEPS: 1:30-2:30

Afternoon session: 2:30-6:00

*Economic and Security Implications of Conflicts in the Caucasus*

Economic questions include first economic survival strategies in the light of conflict in the North Caucasus, second economic trends in the Georgia, Armenia and Azerbaijan and third the plans and prospects for oil production and pipeline transportation in the region. Security questions would cover strategic security priorities and concerns both of local actors and of the wider international community.

*Economic questions: 2:30-3:30*

- **Alexandru Liono** (DUPI, Copenhagen) will present his paper:  
*Economic survival strategies in the North Caucasus*
- **Terry Adams** (former president of AIOC) will present his paper:  
*'Caspian Hydrocarbons, the Politicisation of Regional Pipelines, and the Economic Destabilisation of the Caucasus'*
- **Thomas Waelde** (University of Dundee) will present his recent paper:  
*'International Good Governance and Civilised Conduct among the States of the Caspian Region: Oil and Gas as a Lever for Prosperity or Conflict'*.

3:30-4:15

*Discussion*

4:15-5:00

*Security questions.*

- **Oksana Antonenko** (IISS, London) will discuss the implications of the Chechnya war for Russia's military doctrine and the wider security issues in the Caucasus.
- **Archil Gegeshidze**, (Head, Foreign Policy Department, State Chancellery, Tbilisi) on security questions in Abkhazia and Ossetia from a Georgian perspective.

*Discussion 5:00-5:45*

7.30 Buffet dinner at Michael Emerson's home

**Friday 28<sup>th</sup> January at CEPS**

Morning session: 09:00-1:00

*Potential Policy Action*

What joint action could the major powers, the international organisations and local actors take to address current and future potential conflicts in the Caucasus, their ethnic and religious roots and causes and their economic and security implications? What are the prospects for cooperation within the region on security; economic and political questions and for a wider stability pact for the Caucasus comprising external international actors?

- **Archil Gegeshidze**, (Head, Foreign Policy Department, State Chancellery, Tbilisi) will present some ideas for intra-regional cooperation from a Georgian perspective.

- **Sergiu Celac** (Ambassador at large, Romania) on the prospect of a stability pact for the Caucasus.  
*Prospects of a Stability pact for the Caucasus*
- **Michael Emerson** (Senior Research Fellow, CEPS) will outline a possible framework for cooperative arrangements in the Caucasus, drawing on earlier stability pacts and models of regional cooperation.  
*Approaches to the Stabilisation of the Caucasus*
- **Max Van der Stoel** (High Commissioner on National Minorities, OSCE).  
Concluding remarks.

*Discussion*



## List of Participants

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H.E. Zurab Abashidze, Ambassador, Embassy of Georgia, Brussels  
Dr Terry Adams, former president Azerbaijan International Oil Company  
Mr Avet Adonts, Counsellor, Embassy of Armenia, Brussels  
Dr Ali Hakan Altinay, Senior Coordinator, IREX, Istanbul  
Dr Oksana Antonenko, Research Fellow and Programme Director, IISS, London  
Mr Artem Aznaurian, First Secretary, Embassy of Armenia, Brussels  
H.E. Sergiu Celac, Ambassador at large, Ministry of Foreign Affairs, Bucharest  
Mr Viacheslav Chirikba, University of Leiden  
Mr Jonathan Cohen, Programme Associate, Conciliation Resources, London  
Mr Bruno Coppeters, Professor, Free University of Brussels  
Mr Denis Corboy, former head of EC delegation to Georgia and Armenia, Brussels  
Mr Hossein Karimi, First Secretary, Embassy of the Islamic Republic of Iran, Brussels  
Mr Pol De Witte, NATO, Brussels  
Mr Chris Donnelly, Adviser for Central and Eastern European Affairs, NATO, Brussels  
Mr Alexandre Egorov, Counsellor, Embassy of the Russian Federation, Brussels  
Mr Michael Emerson, Senior Research Fellow, CEPS, Brussels  
Mr Teimuraz Gamtsemlidze, Minister Counsellor, Embassy of Georgia, Brussels  
Dr Archil Gegeshidze, Head of Foreign Policy Department, State Chancellery of Georgia,  
Mr Pekka Hakala, Desk Officer for South Caucasus, European Parliament, Brussels  
Mr Carl Hartzell, Administrator, EU Policy Unit, Council of the EU, Brussels,  
Dr Fiona Hill, Director of Strategic Planning, Eurasia Foundation, Washington  
Dr Haluk Kabaalioglu, Embassy of Turkey, Brussels  
Mr Oleg Kobiakov, First Secretary, Embassy of the Russian Federation, Brussels  
Mr Joseph Kujiashvili, Counsellor, Ministry of Foreign Affairs of Georgia  
Mr Irakli Laitadze, First Secretary, Mission of Georgia to the EU, Brussels  
H.E. Vasily Likhachev, Ambassador, Embassy of the Russian Federation, Brussels  
Mr Alexander Liono, Guest Research Fellow, DUPI, Copenhagen  
Mr Arif Mamedou, Counsellor, Embassy of Azerbaijan, Brussels  
Dr Anna Matveeva, Research Fellow, Chatham House, London  
Mr Jeremy Moakes, Council of Europe, Strasbourg  
Anne-Marie Mouradian, Radio France Internationale  
Mr Steven Wagstyl, Financial Times, London  
Mr Jaroslaw Pietrusiewicz, Senior Mission Officer, OSCE Conflict Prevention Centre  
Ms Elena Prokhorova, BBC World-Russian Service, Brussels  
Mr Anthony Richter, Director, Open Society Institute, New York  
Mr Denis Sammut, Executive Director, Links, London  
Mr John Scott, University of Leuven, Leuven  
Ms Brenda Shaffer, Harvard University, Boston  
H.E. Vigen Tchitetchian, Ambassador, Embassy of Armenia, Brussels  
Ms Hilda Tchoboian, Covcas Centre for Law and Conflict Resolution, Villeurbanne  
Mr David Tirr, European Commission, Brussels  
Ms Nathalie Tocci, Research Fellow, CEPS, Brussels  
Mr Marius Vahl, Research Fellow, CEPS, Brussels  
H.E. Max Van der Stoep, High Commissioner on National Minorities, OSCE, the Hague  
Mr Kees Van Rij, Head of Task Force, Council of the EU, Brussels  
Mr Stefan Vassilev, OSCE, the Hague  
Mr Vladimir Vassioutinski, Senior Counsellor, Embassy of the Russian Federation, Brussels  
Dr Thomas Waelde, Executive Director CEPMLP, University of Dundee  
Mr David Wagner, Labour Counsellor, US Mission to the EU, Brussels  
Dr Nicholas Whyte, Research Fellow CEPS, Brussels  
Mr Konstantin Zaldastanishvili, Ambassador, Mission of Georgia to the EU, Brussels