

Towards Europe?! Straddling Fault Lines and Choosing Sides in the South Caucasus

Policy Recommendations ¹ Study Group Regional Stability in the South Caucasus



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Current Events in the South Caucasus

The on-going crisis in Ukraine simultaneously distracts and colours perceptions about recent events in the South Caucasus. The international community devotes as much attention on the Ukraine crisis as it has failed to devote on the conflicts in the South Caucasus. While the Ukraine crisis reminds experts of how regional tensions led to full-blown war twenty years ago, Western leaders seem to be oblivious of the fact that yet another frozen conflict is being concocted at Russia's periphery, between the European Union and the Eurasian landmass. This also means that the West is no closer to a clearer understanding of the tensions in the South Caucasus, as the sources of those tensions recede ever further into the past, making resolution more difficult.

More to the point, Abkhazia suffered a minor revolution in the Spring of 2014, which led to the removal of Aleksandr Ankvab as democratically-elected president of the self-proclaimed Republic of Abkhazia. These events are reminiscent of those that saw Ukraine's president Yanukovich seek exile in Russia, with the exception that it didn't trigger accusations of third party (read Western or Georgian) involvement. Following the elections of 24 August 2014, predictably repudiated by Georgia and the West, Abkhazia has largely recovered its former stability.



In Georgia, prime minister-elect Bidzina Ivanishvili has, as promised upon his election in 2013, relieved himself of office and left it open to incoming PM Irakli Gari-bashvili. The brief passage of Ivanishvili at the helm of the Georgian state has left its mark. Among the major accomplishments of his leadership, the relative rapprochement with Russia through the reopening of some aspects of trade merits mention. However, Georgian politics have suffered from a deep polarization during that period, beginning with attempts at prosecuting outgoing president Mikheil Saakashvili (since 2013 in exile in the U.S.), and continuing with accusations of corruption against defence minister Irakli Alasania, which led to his departure from the ruling coalition in October 2014, and was followed by the resignation of key cabinet ministers, among which foreign minister Maja Panjikidze.

This has thrown the Georgian government in disarray in particular with regards to its ambitions of integration into Western institutions. While this crisis is likely to be resolved through new parliamentary elections, it has cast a shadow on the 2012-2013 success of the first peaceful, free and fair government transition in Georgia since its independence. Because of this, all eyes will be turned on the quality of the Georgian electoral process, bearing in mind Russia's interest in keeping NATO out of that country.

In the case of Armenia and Azerbaijan, the respective election results of 2012 and 2013 have predictably perpetuated the stalemate over Nagorno-Karabakh. It remains to be seen how the localised arms race that has characterised the relations between the two countries since around 2007 will affect Armenia's entry into the Eurasian Union, and Azerbaijan's continued reliance on oil exports in a context of plummeting prices. Experts have predicted that Azerbaijani oil reserves would peak in 2014, and that production would inevitably drop thereafter. This means that the rate of its defence spending would also be expected to diminish. These factors may give the impression to Azerbaijan that it may lose the initiative- After outspending Armenia's entire government budget, the Russo-Armenian alliance may be too much to withstand if its oil revenues drop. Ergo, Azerbaijan may be tempted to initiate action through military force.

In addition, the budgetary restrictions that the drop in oil prices and production may create can also lead to a crisis of expectations among the population. The government may already be anticipating such an eventuality, as the recent spate of arrests of dissidents, journalists and bloggers attests. The Aliyev regime may feel under pressure and pre-empting possible popular unrest.



Turkey is also fresh from recent rounds of elections that have secured Erdogan's position at the helm of this country, but the major challenge comes from the South East. ISIS is knocking on Turkey's door, throwing into question the very existence of the Kurdish minority, let alone Kurdistan. Turkey is a critical actor in the South Caucasus, especially in view of the stabilization of relations with Armenia. Its attention is now monopolized by the morphing threat of spill-over of the Syrian crisis, refugee in-flows and ISIS. How Turkey will deal with the double challenge of its relations with the Kurds and that of ISIS will be the object of close scrutiny by the international community.

The Eurasian Union and Customs Union in Question

The speakers considered whether the Eurasian Union would one day become an integrative project like the European Union, or whether it was merely the recreation of the Soviet Union in a new form. Panellists argued that the defining difference between the two institutions was the presence of checks and balances, which mitigates the disproportionate weight of France and Germany in the EU, which seems (as yet) absent in the Eurasian Union, where Russia is the dominating actor. Indeed, 80 percent of the total GDP of the Eurasian Union is produced by Russia. But furthermore, nearly a quarter of that wealth depends on some 110 oligarchs, which makes the Eurasian Union heavily asymmetric.

At the "operational level", the difference between the EU and the Eurasian Union is their degree of centralization, with the former being a "soft", de-centralized federal economic project. The Eurasian Union, it was argued, lacks the institutional framework to accommodate the interests of smaller players, which could lead to an overbearing centralization. Panellists agreed that the Eurasian Union - void of ideological context - was a return to Soviet days. However, this does not mean that there is no cleavage between the EU and the Eurasian Union. In fact, the people of Ukraine, for one, put the issue of individual rights before that of personal comfort, whereas the people of Russia seem (prima facie evidence seems to support this claim) willing to submit to strong directive rule in exchange for greater material comfort. Whether the Eurasian Union will produce this standard of living has yet to be seen. In this sense the choice between one and the other integrative project represents a civilizational choice. Beyond

the ideological content and the common the desire to foster trade and economic relations, could the two projects be reconciled so that countries and nations caught between East and West can better form their policies?

Reconciling the EU with the Eurasian Union

Because the two integrative projects are perceived as “civilizational” incarnations of their respective “blocs”, they also constitute competing geopolitical projects. Some aspects of the EU cannot satisfy the security requirements of participants to the Eurasian Union. Armenia’s choice for the Eurasian Union, ratified by the Constitutional Court on 15 November 2014, is motivated through the need for additional security guarantees. This is something the EU cannot hope ever to match. The EU has also been accused of being inconsistent (a reflexion of the number of decision-making centres there) in its policies, especially pertaining to enlargement. This means that the issue of “attractiveness” becomes mitigated by hard security considerations. Ukraine’s choice is clearly a loss for Russia because it means that a potentially hostile military adversary will manifest itself on its doorstep. This is something that Russia does not want, and it has been a central tenet of its foreign, defence and security policy for the last twenty years. How Ukraine’s return to the “Russian fold” will alleviate this sentiment of vulnerability is not clear. Still, the principle of “strategic patience” should be applied all around to allow simmering tensions to cool down and let leaders engage rationally.



Geopolitics is about material interests, not values. The competition for resources is allowed to take place be-

cause there is no real normative contest; Russia must use force to impose its writ, whereas the EU’s values do the work for her. In other words, the latter does not need to stand up to Russia to still gain an advantage. The problem is that the South Caucasus will remain isolated by the geopolitical competition. This isolation will continue, regardless of whether a particular country chooses this or that economic integrative project. The solution to reconciling the two projects, and therefore breaking the isolation of the South Caucasus would be to establish therein a free economic zone, commercially accessible to either blocs, liberating the participants from the painful consequences of their dilemma. It could induce both sides to engage in the South Caucasus in a way to eliminate inter- and intra-regional dividing lines.



Georgia, Armenia and Azerbaijan at the Fault Line: What Choices for what Consequences?

Perhaps it is not primarily a question of choice, but of complementarities. While “choosing” the EU would bring clarity as to rules of expected behaviour, joining the Eurasian Union would bring security. Panellists here believe that it is unproductive to distinguish or separate between a political project and a security project, which the EU and the Eurasian Union respectively are. Armenia’s participation in the EU’s Deep and Comprehensive Free Trade Agreement via the Association Agreement agreed to in July 2013 (DCFTA – see previous RSSC SG Policy Recommendations) is a case in point; it allowed for a 2.3 percent increase in GDP. How Armenia will fare now that it has signed up for the Eurasian Union remains to be seen. Azerbaijan’s position is that joining the Eurasian Union would amount to a loss of sovereignty without compensation. With the EU, the rules and benefits are clear, but

detrimental for any authoritarian regime, since it brings the issue of normative change to the fore.

Russia has very little to offer in exchange for joining the Eurasian Union. In fact, it can be a vehicle to undermine the comparative advantages of the South Caucasus countries; for example, membership in the Eurasian Union may turn over the resources of Azerbaijan to Russia, and it may permit the by-passing of Georgia as regional transport hub. In addition, it provides no roadmap for a comprehensive conflict resolution package for the region. All the countries in the region are trying to seek equilibrium between three factors; internal stability, Russian influence and Western integration (and the associated obligations, such as meeting the *acquis communautaires*).



Full Western integration means adoption of EU and NATO rules of the road, which mean reform, and therefore can threaten established regimes. Furthermore, it will undoubtedly attract Russia's negative attention, and may exacerbate the already tense situation in the region, especially over Nagorno-Karabakh. At the societal level, it will also contribute to an already aggravating brain drain in the region. On the other hand, staking everything on the Eurasian Union for hypothetical guarantees of security is a non-starter for many communities; namely because of the expected impact on individual rights, not to mention vague expectations of standards of living improvement. The South Caucasus as a whole seems to prefer to articulate a balancing position between the two projects. How to articulate this balancing act into a platform for regional stabilisation remains in question. It has been argued that the two projects or blocs could be reconciled in their fight against Islamic radicalism which is threatening both Russian/Eurasian and Western power centres.

The Impact on the Breakaway Regions

For Abkhazia, South Ossetia and Nagorno-Karabakh, the question is not of "joining" one side or another, it is about affirming status (regardless of whether this status means joining a third country or remaining separate from its titular country). The international community needs to wake up to the reality on the ground. Namely, that no matter how "attractive" the EU may be, security lies with Russia, at least for Abkhazia and South Ossetia. The choice of one model of economic interaction or another cannot supersede the affirmation of independence of some of the breakaway regions. Already, Russia is engaging economically at both the Georgian and the breakaway regions' level, but this doesn't mean there is a solution to the disputes on the horizon.

In Nagorno-Karabakh, while the dispute over status still simmers on, the basic question of trust hampers any decision as to which model could better offer the highest potential for economic development. Mistrust at all levels makes it impossible to move forward on any issue. The direction of choice would be to begin looking at the region as border-free strategic entity of its own. As of yet, there is no leader either in Armenia or in Azerbaijan who has the imagination to build up this narrative. The all-consuming, most important issue is status resolution. Over this there cannot be any compromise, although the majority of the Study Group experts agree that there must be. The idea of a modern "Transcaucasia" is still far off, but medium-term solutions can be imagined. Decision-makers and leaders must demonstrate openness and pragmatism if another generation is to be spared isolation. Pragmatism here needs not be the cool, calculated assessment



of “national” interests at the detriment of individual or adversarial rights, but a reconciliation of interests to the benefit of the greater number.

The disputed regions are locked in this titanic geopolitical contest between the EU and the Eurasian Union, herself piloted by Russia. They do not represent a large enough market to be interesting to either, except that Russia might make a point of pride in “capturing” (this is how certain Western commentators would see it) or “protecting” (how the Abkhaz and South Ossetia’s view the situation) regions lacking universal recognition. The dilemma for Abkhazia and South Ossetia in particular is that either solution (EU or Eurasian Union) means shedding independence that has been fought for bitterly. Yet the affirmation of this independence may also result in a more complete isolation of these regions. Formal recognition would have the merit of “liberating” Abkhazia and South Ossetia not from the “grip” of Georgia, but from the reflex of forever affirming independence as a *fait accompli*, which has policy consequences that are detrimental to their respective constituencies. That is, formal recognition would give them the freedom to engage with whomever they would wish freely (in the case of South Ossetia this may mean joining up with North Ossetia), independently, and in a sovereign manner – as long as Russia authorises it.

Summary of Recommendations

There are three levels of recommendations that the Study Group RSSC would like to submit; (1) general recommendations, expected from one meeting to the next, (2) recommendations of a strategic or structural nature, aimed at establishing new security regimes in the region, and (3) particular recommendations, aimed at exploring solutions that have been the subject of interactive discussions during the workshop.

1. Keep communication channels – especially informal ones – open.

The current tensions between Russia and the West over its actions in Ukraine are a case in point. While sanctions apply and keep mounting, opportunities for dialogue should not be missed. The same applies within the South Caucasus as a whole, and also between South Caucasus actors and Russia.

When dealing with the South Caucasus, the international community should engage in a dual approach of

reconciliation at the grass roots and community level and development. In particular it was proposed that there be a dedicated platform for such “Track 2” engagement between interested parties in Armenia and Azerbaijan, including actors from both sides of the Nagorno-Karabakh conflict. Such a platform could be formal or informal, but it would need to gain some permanence to enable relationships to blossom. In many ways, the PfP Consortium’s RSSC SG procures such a platform. The recommendation here would be to explore ways to adapt workshop agendas to make this platform a reality and better engage academic and official actors from the region.

Also in keeping with the idea of a common platform for discussion, negotiations should continue within the existing frameworks for all unresolved conflicts despite cease-fire violations. Furthermore, in moving ahead with negotiations, matters of history should be secondary to the need to develop a narrative away from “civilizational” understandings of the conflict, and turn towards the future. For example, regional referendums should ask respective societies where they see themselves in x years’ time, rather than keep focusing on status issues.



Finally, the need for “strategic patience” has been voiced. Although vaguely defined, it can be said that time heals all things. This is why a narrative hinging on this principle should be aimed at the younger generation (the 20-25 year-olds) who have not lived through the conflict or have no memory of the breakup of the USSR. In the context in which it was voiced during the workshop, however, “strategic patience” can give the impression that when sufficient time has passed, what has been achieved in fact is also achieved in law. This merits debate, and the conditions under which this would be possible will be explored in future workshop meetings.



2. A not so “final” Final Act: Adapt the 1975 Helsinki Treaty

The international community, and more particularly the OSCE, should consider creating new security architecture for the South Caucasus by adapting the 1975 Helsinki Final Act. This would provide for non-contradictory “exceptions” which would bring consistency to the regional realities, and humour Russian suggestions, voiced in 2008 already, about new security architecture for Europe. The main thrust of the potential changes to the OSCE security framework should rather aim at adapting the regional security architecture (not necessarily only in the South Caucasus, but in the whole Eastern Europe- or in the EU Eastern Neighbourhood) in order to increase its consistency with regional realities. The 2009 Russian proposal for new European security architecture might be part of that discussion, although it couldn’t obviously respond all of the regional security needs.

In particular, such an adaptation should include re-defining and harmonizing the concepts of territorial integrity and self-determination in order to stimulate conflict resolution in the area of application. For example, by precisely distinguishing between internal and external self-determination (the latter leading to fully-fledged independence) and the conditions under which the former can turn into the latter.

At the economic/trade level, the Final Act could take on the promotion of a South Caucasus economic free zone (or free trade areas) irrespective of the “allegiance” of the respective countries (to join the EU or the Eurasian Union) and irrespective of status.

In addition, the OSCE will mark the 40th anniversary of the Helsinki Final Act in 2015. In reality, the “Helsinki at 40” anniversary is intended to revitalize the OSCE. Naturally, this would also reflect well on the various peace processes (Minsk, Geneva) which

the OSCE stewards. The international community has a golden opportunity to reconcile conflicting security reassurances within a multilateral framework which everyone values.

3. The international community should face up to realities in the South Caucasus

After 20 years of stalemate, it is increasingly doubtful that reintegration can be made attractive to regions lacking universal recognition in the Western South Caucasus. In this sense, the EU’s “engagement without recognition” principle should perhaps be reconsidered so as to prepare for the gradual recognition of increasing levels of formal Abkhaz and South Ossetia authority, including sovereignty over their own affairs. The conditions that would permit this recommendation to apply to Nagorno-Karabakh are not yet present.

Georgia should explore the possibility of trading gradual or partial recognition of such responsibilities in Abkhazia and South Ossetia in exchange for equally gradual and reciprocal withdrawal or Russian forces from Abkhaz and South Ossetia territory. This would be underpinned by a formal trilateral (Russia-Georgia-breakaway region) treaty on the non-use of force.

At the present time, nowhere is the need for a reinforced cease-fire agreement more urgent than in the Nagorno-Karabakh conflict between Armenia and Azerbaijan. The shooting down of an Armenian Mi-24 (NATO designation “Hind”) helicopter allegedly on a training mission close to the line of contact by an Azerbaijani missile represents a dramatic escalation. The opportunity should be seized to make the line of cease-fire more robust, not only by proscribing snipers (see earlier policy recommendations) but by proposing a heavy weapons exclusion zone, buttressed by a formal non-use of force agreement between the sides.



A Western strategy for the South Caucasus is needed. While it is becoming increasingly clear that, in the wake of the Ukrainian crisis, the West will seek to prevent Russian attempts at “re-Sovietising” Eastern Europe and Central Asia by an emerging strategy to contain the Eurasian integration, the focus for the SC strategy should take a constructive/power sharing approach. From this perspective, the resolution of the protracted conflicts should become a key Western priority. Such an approach might, on the one hand, undo Russian geopolitical games in the region, and, on the other hand, may open the door to developing new European security rules and mechanisms in the OSCE area. To that end, a more pro-active and imaginative role of the West should be considered for engaging both Russia and Turkey in effective conflict resolution. For example, the West might start to prepare the ground for sustaining post-conflict regional economic integration in the South Caucasus, as a way to circumvent the dilemma of post-Soviet states caught in between competing European and Eurasian integration processes. The West might also defend its regional economic and security interests in the South Caucasus more pragmatically by seeking new regional arrangements according to common interests, not necessarily upon acceptance of common values.

In Nagorno-Karabakh, a more promising path might lead towards post-conflict economic integration of Armenia, Azerbaijan and the break-away region of NK, in the wake of a political compromise on the final status established in line with the OSCE Minsk Group’s updated Madrid principles. Fresh research on economic incentives as peace-building tools in the context of the NK conflict has clearly shown that there is a will for nascent economic cooperation to emerge between Armenians and Azerbaijanis. Furthermore, the same research highlighted that Armenia and Azerbaijan need not only the prospect of economic cooperation, but an entire post-conflict blueprint for integration and regional (economic) development, inclusive of projects of ‘common economic interest’ that can be developed jointly. While military strategists in these countries keep in place their contingencies for war, there is an alternative choice: the path to eventual peace, prosperity and possibly economic integration for both Armenia and Azerbaijan.”

4. *Make the Eurasian Union more attractive*

Russia and the other members of the Eurasian Union should reform the existing model from within so that consensus could be adopted as the main decision-making principle. In this way, the smaller/weaker members of the Union could be empowered in order to sustain their autonomy. This could also be formulated as giving veto power to the member countries on substantial issues.

Likewise, the Eurasian Union should be decentralized into a more flexible structure which could be more attractive to the business groups, democratic civil society organizations as well as youth. Increasing the attractiveness of the Union could go hand in hand with the prioritization of persuasion over coercion as the exclusive mode of communication among the stronger and weaker members of the Union.

Last but not least, the Eurasian Union’s competencies in issues like energy and health regulations should be made more transparent not only to the domestic actors but also to the international stakeholders. The Eurasian Union’s energy policy should not infringe on the energy security of the partner countries. In this way, energy policy would reflect the dynamics of the free market.



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The Regional Stability in the South Caucasus Study Group

The PfP Consortium Study Group “Regional Stability in the South Caucasus” (RSSC), through the activities of the Austrian Ministry of Defense and Sports and Austrian Ministry of European and International Affairs has set its aim at positively influencing security decision-making in the South Caucasus by meeting these goals:

- Multinational participation in the RSSC Study Group, building on experts from all dimensions of the security-political spectrum in the three core countries of Armenia, Azerbaijan and Georgia. This will be paralleled by bringing in experts on regional stability issues from the main partner countries and institutions to the region, namely the European Union (Member States), the Russian Federation, Turkey, the United States as well as NATO, the OSCE and the UN. Building ownership and trust from within is the utmost goal.
- Building a constructive network of academic and policy-making influence by identifying and invol-

ving civil society, think-tanks and defense institutions in the work of the Study Group.

- Alteration of the conflicting narrative in the region to enable the examination of security challenges from a regional point of view.

Based on the model successfully employed with the Regional Stability in South East Europe Study Group (RSSEE) and to maintain the pace of work, RSSC will operate on a two-meeting schedule per year. One Study Group meeting will be held in Austria, and another will be held close to or in the region.

From these workshops, supported by the Austrian National Defence Academy, will come concise yet comprehensive policy recommendations oriented towards more than 800 decision makers in the US, European governments, NATO, the EU External Action Service and OSCE as well as to national and local governmental and non-governmental institutions. In addition, academic papers will be published in the Study Group Information Series of the Austrian National Defence Academy for each workshop.



These Policy Recommendations reflect the findings of the 10th RSSC workshop “Towards Europe?! Straddling Fault Lines and Choosing Sides in the South Caucasus” convened by the PfP Consortium Study Group “Regional Stability in the South Caucasus” from 6-8 November 2014 in Reichenau, Austria. They have been compiled by Frederic Labarre, RSSC Co-chair with input from George Niculescu, Elkhan Nuriyev Oktay Tanrisever, Inver Alshundba, Astanda Pataraya, Gayane Novikova and Ivan A. Babin. Valuable support came from COL Ernst M. Felberbauer and Maja Grošinić from the Austrian National Defence Academy.