TIME FOR CHANGE?

U.S. POLICY IN THE TRANSCAUCASUS

by RICHARD D. KAUZLARICH

A CENTURY FOUNDATION REPORT

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PREFACE

Over the ten years since their independence, the three states of the Transcaucasus—Azerbaijan, Armenia, and Georgia—have experienced at various times full-scale war, vast internal disturbances, massive displacement of peoples, the exodus of many citizens, extensive energy development, and deep interest and involvement by more powerful Turkish, Iranian, and particularly Russian neighbors. They have, despite much adversity, clung tenaciously to their independence as well as their deep antagonism toward their neighbors, as in the case of Azerbaijan with Armenia and Georgia with Russia. They have developed functioning but deeply flawed and, as in the case of Georgia, very weak states. They still have a long road to peace, stability, economic growth, democracy, and a future in Europe. But they are on the way.

During this period, the United States became deeply involved in this area for the first time and helped to keep these states afloat and preserve their independence from Moscow because we attributed geostrategic importance to the area. We have maintained interest in the area's energy resources and sought to keep them out of the hands of Russia and Iran—and equally to get the energy to market in ways not dependent on Russia or Iran. We continue to spend much effort, so far unsuccessfully, as a peacemaker between Armenia and Azerbaijan over Nagorno-Karabakh. We have provided varieties of assistance to shore up these states and to try to move them in democratic directions. Our involvement in the area also strikes

deep political chords in the United States with a concerned and politically influential Armenian community bitterly at odds with oil-rich Azerbaijan.

This paper provides a policymaker's guide to U.S. policy toward the region over the past ten years and a set of recommendations for its future direction. But it is more than that, looking at the three interrelated but disparate states and, in brief compass, offering the reader an adequate domestic and regional background and history for understanding why and what America was about in the region. The scope of the paper is not surprising since Richard Kauzlarich, its author, is a prominent diplomat who played an important role in American policy toward the area, serving, for example, as deputy assistant secretary of state in the Bureau of European Affairs (1991–93) and ambassador to Azerbaijan (1994–97). He has not allowed time or other involvements to diminish his deep sympathy for this area and his personal interest in seeing it move in constructive directions. Not surprisingly, he gives high marks to the United States for helping the new regimes survive—a judgment not universally agreed upon—but calls for a more aggressive approach in establishing peace in the area, enlisting greater international cooperation for improved governance and more rapid democratic and economic development, and expanding the narrow U.S. focus of the past decade on energy. He also argues for further developing security relationships with the three states.

Although the paper was completed before September 11, the author generously agreed to provide some tentative concluding comments on the impact of the attacks on the Transcaucasus and its neighbors. The stability of the area; the end of violence, particularly the Chechen war; and the threat of terrorism should be of deep interest to both the United States and Russia. Obviously, the current improvement in American-Russian relations also offers hope for a reversal of competition in the area and thus greater ability to move forcefully on resolving the Nagorno-Karabakh issue and greater latitude for cooperating on energy. Possibly in the offing as well are improvements in U.S.-Iranian relations. Kauzlarich notes all these and sees opportunities for the future. He maintains a cautious stance, however, noting the long residue of geopolitical concern in Russia and particularly deep suspicions in Iran

about American involvement in its neighborhood. We should not be deterred in any event from trying to build three stronger independent states, thus helping them become part of an arc of stability running from the Balkans through Turkey to the Caspian.

—Morton Abramowitz
Senior Fellow, The Century Foundation
November 2001

1. INTRODUCTION

In the early 1990s, as the Soviet Union began its plunge toward dissolution, few Americans knew or cared about the countries of the Transcaucasus. Only a small number of U.S. academics, diplomats, adventurers, and intrepid businessmen had visited Soviet Armenia, Azerbaijan, or Georgia. For U.S. policymakers, these were truly places of "legend and fable."

Ten years later, these countries are independent states whose strategic location has made them important to U.S. foreign policy—all the more so after the tragic events of September 11, 2001.[1] However, with their freedom came dowries of bloody hostilities in the Abkhazia and Ossetia regions of Georgia and between Armenia and Azerbaijan over the Nagorno-Karabakh region of Azerbaijan. The clashing interests of three regional powers—Russia, Iran, and Turkey—further aggravated the transition to independence. Moreover, the internal political problems faced by the leadership in Armenia, Azerbaijan, and Georgia resulted in a failure to embrace the model of democratic market economies thus hindering their engagement with the West.

It was difficult for the United States to develop a policy that responded to such complexities while balancing domestic interests and maintaining even relations—as much as circumstances would allow—with the new Russia. The initial U.S. priority in the Transcaucasus focused on trying to help resolve the basic conflicts undermining their stability and sovereignty. As the United States turned its

attention to their political and economic development, Armenia and Georgia received economic assistance. But in spite of the aid, neither democracy nor economic reforms have prospered in these countries. Meanwhile, in the case of Azerbaijan, U.S. domestic politics led to congressionally imposed sanctions (Section 907 of the Freedom Support Act) that prohibited economic assistance. Without the prod of external assistance, the Azerbaijanis lagged even more in promoting political and economic reform.

Over time, energy development and transport have come to overshadow all other aspects of U.S. policy in the Transcaucasus as a whole. At the core of American involvement in the Transcaucasus has been a desire to prevent Russia and Iran from reestablishing dominance there, especially with the increasing importance of ensuring western access to Caspian energy resources. Energy development is the one area where the United States has influence over Azerbaijan, but, as has been the case with foreign aid, even the promise of significant oil and energy-transport revenue for Georgia and more for Azerbaijan have failed to spur their economies or transform their politics.

Until two months ago, critics argued that U.S. engagement in the region was disproportionate to American interests there. They did not believe there was any national security threat that justified America's deep involvement in these three crisis-ridden countries. After all, U.S. influence has brought neither democracy nor market economies, nor has it solved the countries' internal conflicts or their threats to regional security. They alleged that the U.S. fixation on pipeline routes that avoided both Russia and Iran served only to antagonize these powers without significantly advancing U.S. energy security objectives.

After ten years of engagement, fundamental questions indeed remain about what U.S. policy has achieved and about where U.S. relations with the various Transcaucasus countries are heading. But questions such as the ones that follow now have to be considered in a new light: Can the United States establish a balanced and integrated policy in keeping with currently defined U.S. national interests, that is, ensuring peace on NATO's southern flank, helping these countries survive as

independent states, and encouraging movement toward democratic, market-oriented societies? How does U.S. involvement clash with what Russia and Iran see as their interests in the Transcaucasus? Given the massive uncertainties in such a volatile region, and the possibilities for crime and terrorism, how much in the way of diplomatic and more material resources should the United States place in the Transcaucasus?

This paper tries to answer these complex questions. It first reviews the geographic, historical, and cultural interactions among the peoples of the Transcaucasus and their large, influential neighbors, as well as the particular role of oil. Next, it examines the development of U.S. policy toward Georgia, Armenia, and Azerbaijan since their independence. It then analyzes the policy approaches of the three main regional powers—Russia, Iran, and Turkey—and how they have reacted to U.S. engagement in the Transcaucasus. Finally, it examines the current situation in light of the ongoing war against terrorism and makes suggestions for the future of the region.

2. HISTORY: CAUCASIAN DREAMS AND NIGHTMARES

The area south of the Caucasus Mountains and between the Caspian and the Black Seas has been the crossroads for population movements, invasions, and trading routes between Europe and the East from before Roman times.[1] History underscores the complex interaction among the peoples of the Transcaucasus, as well as between regional and outside powers.

RUSSIAN-IRANIAN-TURKISH RIVALRIES

In the best of times, the Caucasus region played a buffer role as Greeks, Romans, Byzantines, Arabs, Mongols, Ottoman Turks, Persians, and Russians jockeyed for power. While dreaming of independence, people of the Caucasus had to surrender to the demands of more powerful neighbors or seek the protection of a major world

power. In the worst of times, they were driven from their homes in the lowlands to the higher reaches of the Caucasus Mountains or simply absorbed into larger empires.[2]

The spread of Christianity from the West led to the creation of Christian empires in the Transcaucasus. An autocephalous Georgian church in the sixth century became a mainstay of Georgian king Vakhtang Gorgasali in his battle against Iranian dominance. In Armenia, a similar strengthening of the link between Christianity and state power led not only to a sense of belonging to the Western world but also of being separate from the Iranian and Turkic peoples of the region. The mysterious Kingdom of Albania (no relation to Albania on the Adriatic), which occupied much of the present Azerbaijan, also was Christian. Efforts to achieve religious and cultural independence led to conflicts with their larger neighbor Iran. The Transcaucasian empires were each too weak to resist Iran alone, yet the distinctiveness of the religion and culture of each prevented their uniting to resist Iran. For a while, Byzantium served as a counterweight to Iranian expansionism.

With the rise of Islam in the seventh century, each of the three Christian kingdoms fell under varying degrees of domination from the Arab world.[3] Only parts of Georgia and Armenia were able to resist. Caucasian Albania disappeared forever. Today's Armenia is a sliver of the former Armenian empire. Present-day Georgia is a similar remnant of a much larger empire.

Ottoman, Iranian, and Russian empires became rivals for control of this region. The determining languages and cultures became Iranian/Persian and the Ottoman Turkish. As long as Iran and the Ottomans kept each other at bay, the Transcaucasus could function as a buffer for an imperial Russia slowly expanding south. From the thirteenth to the sixteenth century, Ottoman Turkey and Safavid Iran struggled for control of the Transcaucasus. In the late sixteenth and early seventeenth centuries, the Ottoman Empire defeated Iran, consolidating its position in the region and posing a threat to Russia.

In the eighteenth century, Russia began steadily to erode both Turkish and Iranian influence in the Transcaucasus. While Christian Armenia and Georgia

welcomed Orthodox Russia as protector of the faith (thus heir to Byzantium), consolidating Russia's position in the Transcaucasus required a war (1834–59) with the non-Christian mountaineers of the North Caucasus, who were deported in the thousands to Siberia. This ethnic cleansing also caused hundreds of thousands of Adygeis, Circassians, Abkhaz, Chechens, and other Caucasians to flee to the Ottoman Empire. Russia wrested control of the Transcaucasus from the Ottomans by war in 1877–78.

Europe and the United States entered the scene with the development of Transcaucasian oil resources in the nineteenth century, which was followed by two world wars and the cold war. To oversimplify, there was always a "Great Game" going on in the Transcaucasus. The major players were the regional powers. Political leaders in the Transcaucasus tried to play them off against each other or engage outside superpowers (earlier Byzantium, today the United States) as protectors against them.

THE TRANSCAUCASUS AND THE NORTH CAUCASUS: INSEPARABLE

For Russia, the North Caucasus was an impediment in its rivalry with Turkey and Iran. Russian objectives in the Transcaucasus—the principal region contested with Turkey and Iran—could be achieved only through military suppression of the ever-rebellious and diverse peoples of the North Caucasus. Russia saw the North Caucasus as an area to control rather than colonize, and the Russian presence there consisted mostly of Cossack outposts protecting lines of communications and trade to the Transcaucasus and beyond. National groups on both sides of the Caucasus, although physically isolated from one another, retain cultural and religious ties that still affect the struggle for independence, influence, and control in the region.[4]

RUSSIA'S IMPERIAL STRATEGY STIMULATES NATIONALISM

Imperial Russia, like the Soviet Union later, controlled the region through divide and rule and Russification. Imperial rule created the environment for a backlash among the Muslim peoples in the Transcaucasus. Armenians throughout the region

were seen as partners with the Russian imperial master. With Armenians and Russians occupying privileged positions in the economic and commercial life of Azerbaijan, it was natural that the nationalist stirings would begin in Baku and its surrounding oil fields. In 1905, this resulted in vicious fighting between Azeris and Armenians.

Christian Georgians also seethed in the nineteenth century under the twin instruments of Russification—the imperial administration and the Russian Orthodox Church.[5] While less dramatic than the Azeri reaction, Georgian national pride in its culture and religion produced a series of anti-Russian uprisings that—although easily suppressed—were a signal for what was to follow.

The seeds of nationalism—and hatred—sowed in the violence of 1905 in Baku (and to a lesser extent in Georgia), along with the massacres and expulsion of Armenians from the Ottoman Empire early in World War I, produced a bitter harvest in 1918 when the Russian Empire collapsed. The November 7, 1917, Bolshevik establishment of Soviet power in Russia and the spring 1918 invasion of the Transcaucasus by the Turks led quickly to declarations of independence by Georgia and Azerbaijan, followed soon by Armenia.

The nationalist forces released by the end of World War I and the collapse of both the regime of Aleksandr Kerensky in Russia and the Ottoman Empire did more than rekindle the 1905 Azeri-Armenian hostility in Baku. Violence spread to Nagorno-Karabakh (part of the Azeri-majority Elisavetpol Governorate of Imperial Russia), immediately leading to conflict between newly independent Azerbaijan and Armenia.

As the largest non-Russian ethnic groups in the Transcaucasus pushed for independence from the crumbling empire, other Caucasian peoples, including minorities (for example, the Ossetians) within the now independent Georgia, asked why they could not aspire to the same. This cascade effect of greater nationalisms begetting lesser nationalisms would be an important theme throughout the Soviet and post-Soviet periods.

SOVIET IMPERIALISM PRESAGES POST-SOVIET CONFLICTS

The entry of the 11th Red Army into Baku (the heavy reliance of Russia on Baku for its energy needs made it a first target for Moscow) on April 27, 1920, and the Bolshevik takeover in Armenia that November and in Georgia in February 1921 ended the brief period of post-World War I independence in the Transcaucasus. In an effort to stifle the remaining nationalist ambitions, especially in Georgia and Azerbaijan, Stalin expanded the divide-and-rule tactics of Imperial Russia, adding the contradictory policies of fostering nationalism and applying intense repression.[6]

In 1923, Stalin ensured that Nagorno-Karabakh remained part of the Azerbaijan Republic, though as an autonomous oblast with an Armenian-majority population. The same held true in the minority areas of Georgia, where Abkhazia, South Ossetia, and Adjaria became autonomous entities. In the North Caucasus, Dagestan, Chechnya-Ingushetia, North Ossetia, Kabardino-Balkaria, and Karachai-Cherkess became autonomous as well. Thus, Stalin encouraged division based on a concept of "nationality" that had never previously been crystallized, bolstering national identity by linking it with territory while eliminating those who dared to seek sovereignty as the logical conclusion of the process. This laid the foundation for the four principal nationality conflicts of the post-Soviet era— Nagorno-Karabakh in the Transcaucasus, Abkhazia and Ossetia on both sides of the Caucasus, and Chechnya in the North Caucasus.

Part of the local repression was Russification, including changing the alphabets of the local languages to Cyrillic. In the case of Azerbaijan, the alphabet changed from Arabic to Latin for a period following World War I. Then Stalin decreed in 1939 that all Turkic languages would be written in Cyrillic, resulting in the third alphabet change in two generations.[7] Replacing the Georgian language with Russian similarly served to keep the nationality issue simmering just beneath the surface in Georgia.

World War II brought a more radical spur to Caucasian nationalism: the mass expulsion of Tatars, Kalmouks, Karatchais, Balkars, Chechens, Ingush, and Meshkets from the region. Mostly Muslim, and accused of collaborating with the Nazis, these peoples were exiled without resources to the underpopulated regions of the Soviet

Union, mainly to Central Asia and Siberia. Those who survived, especially the Chechens, pressed to return home following Stalin's death. As they began filtering back in the late 1950s and early 1960s, they found Russians, Georgians, Ossetians, and others occupying their lands. Forced to resettle elsewhere in the North Caucasus, they nursed a double animosity: against Moscow for the expulsions and against those (some Russian, others North Caucasians "loyal" to Stalin's regime) who now lived on their lands with the support of Soviet power. Much of the instability and profound anti-Russian sentiment in the North Caucasus is attributable to this episode of ethnic cleansing. Attempts to reverse the wrong, beginning with Nikita Khrushchev's speech at the Twentieth Party Conference in 1956 that condemned the Stalinist deportations,[8] resulted in growing calls among those who had been expelled for return of their lands, and for separatism.

PENT-UP NATIONALISMS UNLEASHED BY GLASNOST

As the Soviet Union entered its last years, Mikhail Gorbachev's glasnost allowed the forces of nationalism to burst forth in the Transcaucasus. What began as discussions about cultural and linguistic oppression and ill-treatment of minorities under Soviet rule soon mushroomed into the creation of popular fronts and nationalist demonstrations demanding, first, greater national autonomy and, later, independence. In Azerbaijan and Armenia, bloody riots and pogroms ensued.[9] The expulsions and counterexpulsions of tens of thousands of Armenians and Azerbaijanis that followed led to a bloody Soviet Army intervention in Baku in January 1989 and then a resumption of the long-dormant conflict between Armenia and Azerbaijan over the Nagorno-Karabakh. Meanwhile, Georgian nationalism reemerged, stimulated by the Red Army's brutal suppression of anti-Soviet demonstrations in Tbilisi in April 1989. This in turn set off other "nationalist" efforts within Georgia as the Abkhaz autonomous region and South Ossetia autonomous oblast sought independence from what they regarded as Georgian occupation.

BLACK GOLD CHANGES THE GREAT GAME IN THE TRANSCAUCASUS

The production and supply of oil is central to understanding the past, present, and future of the Transcaucasus. There are four important facts to be noted in the history of oil in the Transcaucasus. First, Azerbaijan has been an oil producer for more than one hundred years. By the end of the nineteenth century, it was the largest oil producer in the world, accounting for more than 50 percent of world output.[10]

Second, the development and transport of Azerbaijani petroleum products directly involved the entire Transcaucasus—not just Azerbaijan. Armenia was engaged because of the substantial number of Armenians working in oil production and trade, although Azeris did not see that role as positive. From the beginning, Georgia was central to the refining and transport of Azerbaijani's oil. In short, at an early stage in the modern history of the region oil created linkages among the peoples of the Transcaucasus.

Third, although Azerbaijani oil in 1991 no longer had the importance it had for the Bolsheviks in 1918, it became obvious by 1994 that offshore Azerbaijan contained significant oil and gas reserves.

Fourth, foreign (that is, not Russian, Iranian, or Turkish) involvement in the Transcaucasus is not a post-Soviet development as was the case with investments in most other newly independent states. By 1900, more than 50 percent of oil production and 75 percent of oil trade was in the hands of the Nobel brothers, the Rothschilds, and Shell.[11] Even the United States was present, through the activities of Standard Oil. For both Tsarist and Soviet Russia, this involvement was a necessary evil to be controlled, and ultimately eliminated.

By 1991, Armenia, Azerbaijan, and Georgia again achieved their independence, although this quickly turned into a nightmare of internal and external war. Like all the former Soviet states, these countries were ill-prepared for independence. They lacked the political and economic institutions of modern states and the resources to manage the transition. As Russia, Turkey, and Iran sought influence in these new circumstances, the United States appeared on the scene as a significant—if remote—political and economic force.

For the past ten years, the United States has increasingly figured in the calculations of Russia, Turkey, and Iran in the region. The interaction between their respective policies alone no longer determined the fate of the Transcaucasus. Rather, they found it necessary to try to block (in the case of Iran and Russia) or use as leverage (in the case of Turkey) Washington's interest in the region. Thus, it is important to understand the evolution of U.S. policy and the reaction of the regional powers before assessing the impact of Washington's growing interest in Armenia, Georgia, and Azerbaijan.

3. U.S. POLICY, 1991–2000

At the end of the 1980s, as dramatic changes shook the Soviet Union, the U.S. government was not thinking about history or oil in the Transcaucasus. To the extent it considered this region at all, it was through the optic of Moscow. The United States tried to encourage the Gorbachev-led glasnost and perestroika efforts in ways that would reduce the Soviet threat to the United States. The focus was on gaining Soviet cooperation on arms control issues and ending regional conflicts in the Middle East, Latin America, and Africa. There was little interest in probing the "internal affairs" of the Soviet republics. For one thing, the United States was conscious of its obligations not to interfere in the internal affairs of participating countries in the Conference for Security and Cooperation in Europe (CSCE). Aware of what was happening inside the Soviet Union, the U.S. government was reluctant to get involved in nationality issues, fearing that this would be seen as encouraging the breakup of the Soviet state or might take away from the focus on its efforts at arms control and preventing regional conflicts.

THE EARLY STAGES OF U.S. INVOLVEMENT

The United States first became engaged in the Caucasus directly in 1988 after the Armenian earthquake that killed 25,000: it mounted its first major relief effort inside the Soviet Union since the end of World War II. Under pressure from Armenian-Americans, the U.S. government began to pay more attention to Armenia, providing first humanitarian and later development assistance. Georgia and Azerbaijan came to American public attention following the failed attempts to use Soviet military force to repress nationalist movements in Tbilisi and Baku.

Until the collapse came, the Bush administration hoped that somehow Gorbachev would succeed and the Soviet Union would remain intact as a reformed, much more open country ready to cooperate rather than compete with the United States. When the Soviet Union broke apart, as republic after republic declared independence, the United States reacted rapidly but defensively. Starting in January 1992, the United States, with little planning or preparation, established diplomatic relations with these newly independent states (NIS). By mid-1992, Washington had embassies in all the republics of the former Soviet Union and began accrediting ambassadors.

Establishing embassies in all the NIS countries almost simultaneously entailed enormous personnel and logistic problems. Still, the United States was, with Turkey and Iran, among the first countries to establish a formal diplomatic presence in the Transcaucasus. The Russians moved more slowly to establish embassies, choosing to work through their established military and intelligence presence and more or less treating these now independent countries as wayward prodigal children who ultimately would come back to the fold. This approach proved costly to Russian interests.

From roughly 1991 to 1994, U.S. policy was cautious. It had three elements:

- Rhetorical support for the independence and territorial integrity of all states of the former Soviet Union.
- Cutting the Russians some slack as they pursued their "security interests" in what they referred to as their "near abroad."
- Support for UN and OSCE efforts (as opposed to unilateral U.S. initiatives) to help resolve conflicts that were endangering the Transcaucasian states' survival.

The new U.S. embassies were reassuring to both the leadership and the people of the Transcaucasus. America was seen as the remaining superpower, the victor in the cold war. Georgia and Azerbaijan (but not Armenia) concluded that Washington would stand up to Moscow on their behalf, and Georgia and Armenia (more than Azerbaijan) believed that the United States would provide the necessary resources to sustain them through the economically painful process of withdrawal from the Soviet system of commerce and exchange. Neither was true.

Rather, the United States remained primarily focused on relations with Russia. The Clinton administration carried over from the Bush administration the policy of pursuing American security concerns regarding weapons of mass destruction (WMD). Washington hoped that somehow Russia would become a force for stability among the unstable states of the former Soviet Union. Except for Ukraine (and to a lesser extent Belarus and Kazakhstan because of WMD), the other states did not figure prominently in Washington's thinking.

While the U.S. government remained focused on Moscow, the Transcaucasus erupted into civil wars and interstate conflicts. The brewing Azeri-Armenian strife over Nagorno-Karabakh became full-scale war as first Gorbachev and then Boris Yeltsin failed in efforts to resolve the conflict. At almost the same time, Abkhaz and Ossetian armed separatists challenged the authority of Tbilisi just as Georgian nationalist parties had challenged Moscow in their break for independence. The Georgian effort to establish a homogeneous national state and its opposition by forces

from Ossetia and Abkhazia repeated developments surrounding the creation of a Georgian state in 1918.[1]

Moscow lost direct control in the former provinces, but not influence. Its local military commanders in the strategically important Transcaucasus were charged with protecting Moscow's interests. Abkhazia sits astride the main north-south rail link between Russia and its military bases in Georgia and Armenia, and Ossetia contains the main north-south road route between Russia and the Transcaucasus. The Russians also recognized the potential for blowback from the Ossetian conflict in Georgia into the North Caucasus, in the form of resumed fighting between Ingush and Ossetians,[2] and from the Abkhaz problem in the ethnically related Adygei Republic in Russia.[3] The interconnected nature of conflicts on both sides of the Caucasus should have encouraged Russia quickly to settle these struggles. Yet the perception in the Transcaucasus was that the Russians were using the conflicts to undermine stability in Georgia and Azerbaijan.

The United States understood the regional perception of the Russian role as well as the nature of the conflicts in the Transcaucasus. Still, it initially hoped that Russia would resolve them in the framework of the Commonwealth of Independent States (CIS), established in 1992. Washington wished that the CIS in its most benign form might become an EU-like community, allowing for economic, political, and security cooperation among the states of the former Soviet Union, with full respect for their independence and territorial integrity. The reality, however, was different. Georgia and Azerbaijan did not join the CIS, fearful that Russia would use it to reestablish the Soviet empire and snuff out their newly won independence. Armenia sought Russian protection and was an active CIS member from the beginning, especially supportive of proposed CIS-wide security arrangements. This development reinforced Azeri opposition to the CIS, which Baku expected would be simply an instrument for imposing a pro-Armenian peace in the Nagorno-Karabakh conflict. Georgia joined only after considerable pressure from Russia, including threats to withdraw Russian peacekeepers from Abkhazia, thereby unleashing the Abkhaz separatists.

The U.S. government deferred initially to Russian efforts to find a solution to these problems unilaterally in their near abroad. It did not wish to antagonize Moscow while there was hope for Russian-American cooperation on higher-priority issues. Still, U.S. policymakers were worried about leaving solution of the Nagorno-Karabakh problem entirely in the hands of Moscow.

As first Soviet and then, at the end of 1991, Russian peacemaking approaches to Nagorno-Karabakh stalled, the United States sought to engage the CSCE—later renamed the Organization for Security and Cooperation in Europe (OSCE)—in a mediation effort. Under the prodding of U.S. ambassador to the CSCE Jack Maresca, the CSCE role concerning the Nagorno-Karabakh conflict was legitimized via the so-called Minsk Group (the United States, Russia, Germany, France, the United Kingdom, and Italy) preparatory discussions in June 1992. The hope was that Russia would defer to a multilateral framework that had the confidence of all the parties to the conflict. While in the short run these discussions did not halt unilateral Russian mediation activity, they provided an internationally sanctioned basis for the involvement of outside powers in helping resolve the dispute.[4] They also ensured that whatever Russia sought to do diplomatically concerning Nagorno-Karabakh would remain in a framework that formally became, in 1997, the responsibility of the cochairs of the Minsk Group: Russia, France, and the United States.

In the case of internal conflict in Georgia, the United States supported creation of a Friends of Georgia group in the United Nations to help the UN special envoy expressly appointed to deal with the Abkhaz conflict. This position was in part a response to Russian attempts to acquire a UN mantle for its unilateral peacekeeping efforts in the Abkhaz-Georgian conflict. The U.S. government was increasingly of two minds regarding Russian involvement in Abkhazia, especially after the return of Eduard Shevardnadze to Tbilisi as head of state in Georgia. (Shevardnadze was one of the few leaders in the newly independent states known outside the former Soviet Union. Further, in the United States and Western Europe, as Gorbachev's foreign minister, he was given considerable credit for enabling the peaceful reunification of Germany and the breakup of the Warsaw Pact.) On the one hand, there was the

continuing hope that Russia could settle these disputes on her border in a reasonable, responsible way. On the other hand, there was the nagging fear, fueled by reports from officials in Georgia and Azerbaijan, that Russian policy was not under central direction. Local leaders argued that the actions of Russian officials in the Transcaucasus were aimed at restoring Russian control rather than promoting peace.

U.S. ASSISTANCE TO THE TRANSCAUCASUS

In 1991, the United States launched its humanitarian assistance program in the NIS, aimed at providing enough food assistance and surplus medical supplies to help Russia and Armenia make it through the first, tough post-independence winter. Recognizing that it would take more than humanitarian assistance to accomplish U.S. objectives, in 1992 the Bush administration pushed through Congress the Freedom Support Act (FSA) designed to provide humanitarian and economic assistance to all the NIS states. The Bush administration regarded the FSA as the principal mechanism to help Russia.

At this time, the Azeris were mounting an offensive against Armenian forces in Nagorno-Karabakh. Armenian-American supporters in Congress attached a provision to the Freedom Support Act—Section 907—to punish Azerbaijan. FSA 907, as it is known, prohibited U.S. aid to Azerbaijan—except humanitarian assistance to refugees from the fighting—until Azeri offensive operations ceased and Azerbaijan lifted its blockade of Armenia.[5] The congressional supporters of Armenia had the votes to ensure that the legislation would not pass without it.

Despite strenuous efforts to remove this language, the administration in the end went along with the provision in order to begin a much-desired assistance program to Russia. The negative reaction in Azerbaijan was predictable—and carried with it long-term damage to America's ability to influence either the government of Abulfaz Elchibey or the regime headed by Heydar Aliyev that succeeded it in Baku. The legislation weakened the U.S. role as a mediator in the Nagorno-Karabakh process; as long as FSA 907 exists, the Azerbaijan government and people see the United States as pro-Armenian. The legislation prevented Washington from providing the type of

assistance to Azerbaijan that went to Armenia and Georgia to help build democratic and civil society institutions and to support economic reform. Such assistance afforded the U.S. government some leverage with the Georgian and Armenian governments in their efforts to democratize—especially in Georgia, where American assistance was critical in sustaining Shevardnadze during the dark and dangerous days following his return to Tbilisi.

As Congress was considering FSA 907, American oil companies were taking the first steps in competing for access to Azerbaijan energy resources, which were undeveloped due to the lack of capital and technology. British Petroleum (BP), with strong U.K. government support, seemed to have an inside track on energy development there. But in October 1992, Pennzoil Caspian Corporation and its partner Ramco began a project to capture natural gas being vented from the Oily Rocks oil production facility.[6] The U.S. government soon thereafter began to consider how to promote American energy companies in Azerbaijan. What started as an effort to increase the U.S. commercial presence in the region assumed greater importance as a demonstration of heightened U.S. involvement in the Transcaucasus. Other American oil companies such as Amoco, Unocal, and Chevron were making progress toward negotiating production-sharing agreements (PSAs) with the Elchibey government when a coup in June 1993 ousted Elchibey in favor of Aliyev, a former Politburo member and former Azerbaijan Communist Party secretary.

Moscow regarded the increased U.S. assistance to Armenia and Georgia and growing American commercial presence in Azerbaijan as threatening to its interests in the Transcaucasus. In particular, Russia believed that the United States sought a geopolitical advantage from its companies' active role in the Caspian oil sector. Elchibey's pro-Turkish and pro-American sentiments, plus Shevardnadze's outspoken criticism of Russia's role in support of rebels in Ossetia and Abkhazia, fed Moscow's anxieties.

The Russians were not about to concede the region to the Americans. They did not have the economic resources, however, to match the levels of U.S. assistance.

At that point the Russian energy sector also was in disarray. It had largely shut down in the Transcaucasus except as the monopoly supplier of natural gas to all three countries. Russia began pushing back in the one area where it had considerable advantage—its ability to project military power and influence in the regional conflicts.

By late 1994, U.S. relations with the Transcaucasus (indeed, with the entire former Soviet Union) shifted from being reactive and crisis-driven to reflecting a broader set of objectives. In part, this became possible with the establishment of U.S. embassies locally. Washington now had better platforms for elaborating U.S. foreign policy interests. More important, this shift was possible because the more active Russian engagement in fact ended the combat phase of the conflicts in Georgia and between Armenia and Azerbaijan. First came a cease-fire in Ossetia, then a cessation of hostilities in Abkhazia and Nagorno-Karabakh.[7] The United States could do little through diplomacy alone to match the pressure Russia applied on the parties to end these conflicts. Washington saw dangers in Moscow dictating cease-fires and subsequent peacemaking and worked to ensure that Russia carried out its mediation efforts under the UN and CSCE (later OSCE) umbrellas. This was successful, and Russian peacemaking activities in the Transcaucasus became anchored in a multilateral framework that included a prominent role for the United States and Western Europe.

The end of the fighting in Georgia and between Armenia and Azerbaijan allowed the United States to expand its policy agenda beyond conflict resolution, which, as noted, it was not well equipped to impose in the Transcaucasus. It also provided an opportunity for America to play to its strengths—commercial presence and economic assistance. The United States also could now pursue a dialogue about economic and political reform, especially in Georgia and Armenia, which until then had been consumed with fighting wars.

The United States sought to enhance political stability through

- Support for democratization, market-based economic reform, and respect for human rights; and
- Rapid integration of these countries into international economic and political structures.

The United States wanted to encourage participation in emerging European security structures, particularly

- Acceptance of the Conventional Forces in Europe (CFE) flank agreement on limitations of certain types of military equipment in the Transcaucasus; and
- Cooperation on elimination/reduction of weapons of mass destruction.

Indeed, Washington sought to encourage all the NIS states to advance economic and political reforms that would bring them closer to the transatlantic community. To achieve these objectives, it would be necessary to block Iranian influence in the region. Washington was concerned that Iran would take advantage of the turmoil to achieve political influence, especially in Azerbaijan, where it could obstruct opportunities for U.S. energy investments. Meanwhile, the United States hoped to advance its commercial interests, especially in the increasingly important energy sector.

U.S. ENERGY DIPLOMACY RAISES THE STAKES IN THE TRANSCAUCASUS

Cease-fires in Georgia and between Armenia and Azerbaijan enabled U.S. policymakers to focus on the development and transportation of Caspian Sea oil and gas resources. Kazakhstan attracted the initial attention. The debate in 1994–95 over forming the Caspian Pipeline Consortium (CPC) to construct a pipeline from Tengiz in Kazakhstan to the Russian port of Novorossiysk brought geopolitics into focus for U.S. energy interests in the Transcaucasus as well.

As an international consortium led by U.S. oil-giant Chevron undertook substantial investment in Kazakhstan's Tengiz on-shore oil field, getting this oil to

market became a major issue among the partners. Chevron proposed a new pipeline predicated on shipping Tengiz oil. The Russians balked at this initially, preferring to route the oil through the existing Russian energy transport network that already was moving considerable amounts of Siberian oil to Novorossiysk. This would accomplish three major Russian objectives: (1) it would ensure Russian monopoly on transporting energy from the Caucasus and Central Asia for international markets; (2) it would limit the already substantial U.S. and other Western investment in Caspian energy development; and (3) it would send a political signal to the United States that Russia was prepared to limit U.S. influence in a region that Russia regards as in its political orbit.

There was lengthy and intense negotiation over ownership, participation, and control of the CPC pipeline between Russia and American and potential investors from Europe as well as the Middle East. Chevron worked hard to demonstrate that a separate CPC pipeline would have substantial Russian involvement. Further, it would avoid the negative impact on the price of Tengiz oil if it were blended with lower quality oil from Siberia in the existing Russian pipeline system. This appealed to Russia's political and economic interests, especially as it became obvious that Moscow could not afford the cost of upgrading both its existing pipeline system and the port facilities in Novorossiysk to handle the additional volumes from Kazakhstan.

As additional oil and gas resources were discovered throughout the Caspian region, Washington increasingly became concerned about those resources reaching markets exclusively through a Russian-controlled distribution system. American companies also were looking for non-Russian alternatives, including routes through Iran, as insurance against a Russian chokehold getting their oil to markets. Soon energy diplomacy came to dominate the U.S. agenda with Azerbaijan and Georgia.

The United States bluntly sought to make these countries and the movement of their vital exports less dependent on Russia. The signing of the "contract of the century" in September 1994[8] for developing the Azeri/Chirag/Guneshli (ACG) offshore oilfield in Azerbaijan put the importance of transporting that oil to world markets squarely before U.S. policymakers. In addition, the problems concerning

ownership, participation, and control of the CPC pipeline convinced Washington that it would be dangerous to rely on any single pipeline route from the Caspian. From these new American concerns, a three-point energy strategy for the area also began to emerge:

- Creating partnerships among U.S., U.K., and other European and Turkish companies to exploit offshore Azerbaijani oil and gas resources.
- Developing multiple pipeline routes from Azerbaijan and possibly other Caspian energy producers to avoid exclusive dependence on Russia's energy transport system.
- Assisting Turkey in meeting its energy objectives in the region while limiting Iran's involvement in the development and transport of these resources.

U.S. officials hoped that these energy efforts could help promote peace between Azerbaijan and Armenia. Among the pipeline routes considered was one that ran through Azerbaijan and Armenia to Turkey; the hope was that the promise of economic benefits from the oil development and transportation would be enough to entice Armenia and Azerbaijan to sign a peace agreement concerning Nagorno-Karabakh. This turned out to be a dream. It soon became clear that peace has to precede the building of pipelines. Neither Armenians nor Azeris, however, were prepared to sacrifice political objectives for the prosperity that might result from cooperation. Consequently, serious discussion about pipeline routes shifted to ones that avoided Armenia and benefited Georgia.

Despite the inability to realize a "peace dividend" from the oil, U.S. efforts had an impact on the "early oil" multiple pipeline decision. (Early oil refers to the initial production from the Azerbaijan International Operating Company, or AIOC, pending full-field development of the ACG concession area. Once the companies resolved to proceed with full-field development, the main export pipeline could be built.) Shipping Azerbaijani oil by multiple pipelines through both Russia and Georgia was brokered by AIOC with political support from the U.S. and British governments.

It was a win-win outcome for all parties except Armenia, Turkey, and Iran. The northern route for easy oil through Dagestan and Chechnya to the Russian port of Novorossiysk gave the Russians a stake in the transport of Azerbaijani oil to complement the equity position Lukoil, the major Russian oil company, had in AIOC itself. In a political sense, a positive or at least neutral Russian attitude toward the AIOC proposal was critical if the early oil was to be transported. The western route through Georgia to the Black Sea port at Supsa also gave Georgia a strong stake in the pipeline, restoring a vital economic linkage between Georgia and Azerbaijan. Most important, it provided insurance if the northern pipeline through Dagestan and Chechnya were ever impeded. (This turned out to be a wise decision, for with the resumption of the war in Chechnya in 1999, the northern route was closed until the Russians could construct a bypass through Dagestan that avoided Chechnya entirely.)

This multiple pipeline decision did not please everyone in the region. Armenia saw itself being marginalized. Turkey, which had pushed for an immediate decision on the main export pipeline from Baku to Ceyhan, saw the early oil decision as bad precedent for Turkish interests. In particular, Turkey was concerned about the environmental impact on the Black Sea of additional tanker traffic though the Bosporus from both the CPC pipeline and the early oil pipelines from Azerbaijan. As long as there were Black Sea alternatives—even if they were short-term solutions only for early oil—there would be doubts about the viability of the proposed export pipeline to Ceyhan. Iran's efforts to play a role in the development of Caspian oil and its transport have, to this point, been unsuccessful.

The AIOC member companies liked this outcome. It provided them with flexibility about how they might ship their oil without having to commit investment resources to a particular route. This was important because there was (and is) no unanimity among the AIOC companies on the best export solution once full-field development of the ACG concession takes place. The companies hoped that before they were forced to make a decision on a main export pipeline based solely on production from the ACG concession, some of them also would strike it big in the

other offshore Azerbaijan concessions then under negotiation. That has yet to happen.

FSA 907 AND U.S. ENERGY INTERESTS

Throughout 1995 and 1996, as the negotiations on the early oil pipelines continued, the negative political environment created by Section 907 of the Freedom Support Act worked against U.S. interests in Azerbaijan. Heydar Alyiev's government used the American desire for U.S. energy companies to participate in production sharing agreements (PSAs) in Azerbaijan to push the Clinton administration to eliminate FSA 907. At the same time, the Aliyev government justified the slow pace of internal political and economic reform by pointing to FSA 907's prohibition on anything other than humanitarian assistance for refugees from the Karabakh conflict. U.S.-Azerbaijani relations reached a low point in the summer of 1996. Then, at the urging of the Armenian-American community, Congressman John Porter (R.-Ill.) proposed an amendment that would have required U.S. humanitarian assistance for Nagorno-Karabakh if there were to be additional humanitarian assistance for Azerbaijan. The anger this created among Azerbaijani politicians and people alike delayed the approval of additional PSAs for American oil companies by a year. In sum, FSA 907 harmed U.S. interests in the Transcaucasus. Would it have made any difference in Azerbaijan if more general assistance had been available?

It is worth looking at the results in Georgia and Armenia, where there were no such restrictions on U.S. assistance. The achievements of reformers have been modest in both states. Ten years later, both Georgia and Armenia still are struggling to create democratic societies based on the rule of law. Neither has achieved the market reforms necessary to create a modern economy. Despite American support, Armenia has not made political compromises with Azerbaijan over Nagorno-Karabakh.

It is unlikely that Azerbaijan would have made greater progress than her neighbors in building a market economy. Unrestricted U.S. assistance would have

prevented the anti-American sentiments that arose because FSA 907 was seen as unfair, which would have strengthened the U.S. negotiating position with Aliyev on Nagorno-Karabakh. The best that can be said is that, without a normal assistance program, it was harder to demonstrate to the government and people of Azerbaijan that democracy, human rights, and economic reform mattered.

The U.S. government saw the development and transport of Azerbaijan's petroleum resources in part as a substitute for the lack of economic assistance. Without the levers that economic assistance would provide to influence the Azerbaijanis, Washington tried to make itself an indispensable partner with Baku in the development of Azerbaijani energy resources. The power that came with U.S. energy companies and U.S. government influence with the international financial community, not to mention America's unique superpower status, made this possible. Aliyev sought to turn this to his advantage as well. Despite delays in approving PSAs with American oil companies because of FSA 907, Aliyev wanted engagement with the U.S. government and oil companies as protection against Russian and Iranian ambitions in Azerbaijan. He also hoped American companies' involvement would encourage the U.S. government to repeal FSA 907. Aliyev's interest was not in the assistance itself. The amounts of assistance would have been small compared to the foreign investment and anticipated revenues from oil and gas. Rather, for Aliyev and the people of Azerbaijan, repeal of FSA 907 has been a question of national justice.

The emphasis on energy, however, created the impression that the only real U.S. priority in Azerbaijan was to help energy companies. Despite consistent efforts to press Baku on human rights, democracy building, and economic reform, the Azerbaijanis believed that the U.S. government would not push its concerns to the point they endangered Washington's energy interests. Later, the perception grew that energy was indeed the only American priority in the Transcaucasus. This further weakened these countries' already shaky commitment to economic and political reform and peacemaking.

BAKU-TBILISI-CEYHAN MAIN EXPORT PIPELINE DOMINATES U.S. POLICY

By 1998, the next phase of pipeline development, the selection of a route for the main export pipeline dominated U.S. diplomacy in the region. Azeri and Armenian intransigence over settling the Nagorno-Karabakh conflict, lack of resolution in regard to internal Georgian strife, and the setbacks to reform efforts in all three countries left little room for new policy initiatives in these areas. Not surprisingly, American policymakers focused more intensively on pipeline diplomacy to bolster their influence.

Aggressive U.S. government promotion of the Baku-Tbilisi-Ceyhan route was a bold if risky move absent sufficient quantities of oil readily available to justify construction of a pipeline that could cost between two and four billion dollars. Moreover, in contrast to their unified position on the early oil export decision, the AIOC partner companies were not agreed on a main export pipeline to Ceyhan. It would be impossible to achieve consensus until there was enough oil produced to fill the pipeline. Major U.S. companies, such as Exxon-Mobil, were not prepared to invest in a Baku-Tbilisi-Ceyhan pipeline. Lukoil made it clear that it would not ship its oil through a pipeline to Ceyhan. In addition, bringing Azerbaijan and Georgia together to support such a project would not be easy given Georgia's greater vulnerability to Russian pressure. Georgia would require considerable outside support if it was to take the political risk connected with the proposed pipeline.

Turkey, however, led by President Suleyman Demirel, was eager for a political success to undercut Russian and Iranian influence. It helped his cause that U.S. policymakers also wanted to check renewed Iranian efforts to establish an essential commercial route southward to transport Caspian oil and increasingly natural gas.

While American policymakers continued to talk about a multiple pipeline strategy,[9] as during the negotiations on early oil, in fact the United States focused on achieving political and commercial agreement for the Baku-Tbilisi-Ceyhan route. Only from the perspective of the Caspian as a whole was it a multiple pipeline strategy (the CPC pipeline through Russia to Novorossiysk, the Baku-Tbilisi-Ceyhan route, the early oil system through Georgia and Russia). From Moscow's perspective, however, it was clearly designed to minimize Russian influence in the Transcaucasus.

It also, of course, preempted any route for gas or oil through Iran. In the end, political considerations outweighed the commercial questions about the viability of a Baku-Tbilisi-Ceyhan pipeline.

Implementing this decision would require an intensive diplomatic effort. The United States had to bring Azerbaijan, Turkey, and Georgia into alignment. By late 1999, Washington had pushed through the basic intergovernmental understandings for the Baku-Tbilisi-Ceyhan pipeline, which the presidents of Azerbaijan, Georgia, and Turkey signed during the November 1999 OSCE summit in Istanbul.

That development set the stage for the sponsor group[10] of AIOC companies led by BP to undertake a basic engineering study of the project. In May 2001, the sponsor group decided to go ahead with the $150 million detailed engineering phase. This represented an important step toward eventual construction of a pipeline that BP now believes is viable based on what could be extracted from the Azeri/Chirag/Guneshli field plus other Azerbaijani production.[11]

To evaluate the effectiveness of U.S. policy in the Transcaucasus and the prospects for further progress, it is essential first to examine the interests of the regional powers—Russia, Iran, and Turkey.

4. REGIONAL POWERS: RUSSIA

For Russia, the Transcaucasus is a major strategic concern—both military and economic.[1] Caught flat-footed by the breakup of the Soviet Union, the Russians were slow to establish their diplomatic presence, preferring to work through their security and military structures. Emotionally, many had trouble believing that independence for the republics was more than a short-term phenomenon, a replay of 1918–21.

ABANDONMENT AND WITHDRAWAL

As the Soviet Union imploded, Transcaucasian quarrels intensified. The Soviet government's failure to resolve quickly the Abkhaz-Georgian and the Armenian-Azeri hostilities frustrated the already stressed leadership in Moscow. With no end to these conflicts in sight, they disowned the region after the failed August 1991 coup attempt against Gorbachev. Russian Interior Ministry troops, the only force capable of keeping Armenians and Azeris apart, withdrew from Nagorno-Karabakh in 1992; their departure meant war. Meanwhile, discipline in the Russian military units stationed in the Transcaucasus broke down, resulting in large-scale transfer of light and heavy weaponry to organized and unorganized armed forces throughout the region. Whatever short-run control Moscow might have exerted over the Abkhaz and Nagorno-Karabakh conflicts vanished.[2]

FROM ABANDONMENT TO CHAOS

As the shock of the demise of the Soviet Union wore off, Russia saw its old rivals, Turkey and Iran, beginning to fill the vacuum created by Moscow's withdrawal. Without firm control from the center, Russia's security services, military, and "businessmen" followed their own agendas. Freelancing by the Russian defense ministry with the Armenian and Azerbaijani military to arrange unsuccessful cease-fires in the Nagorno-Karabakh conflict surprised Western diplomats and the Russian foreign ministry alike. In Georgia, the Russian military involvement on the side of the Abkhaz and Ossetian secessionists deepened distrust in Tbilisi and in the West about Moscow's desire to end these conflicts. The business activities of Russian military forces in the Transcaucasus—selling arms and ammunition to all comers—added to the chaos.

Moscow paid a price for the lack of discipline in Russian engagement in the Transcaucasus. While Armenia had no choice but to ride through this rough period with its Russian protector, Georgia and Azerbaijan were pushed toward the West by public perception that Russia supported their enemies in both internal and external conflicts. Moscow's standing in Georgia and Azerbaijan, already heavily damaged by

Gorbachev's use of the Red Army to put down nationalist demonstrations in Tbilisi and Baku in the late 1980s, fell further.

The new U.S. diplomatic presence in the post-Soviet republics, especially in the Transcaucasus, also was troubling to Moscow. In part, this stimulated a shift in focus of Russian foreign policy from improving relations with the West to reducing foreign influence in the so-called near abroad. Foreign Minister Andrei Kozyrev was forthright about this in September 1992: "The Caucasus region," he said, "is a traditional sphere of Russian interests, and we do not intend to abandon it." In January 1993, the Russian foreign ministry outlined a new agenda that reoriented foreign policy priorities to the near abroad. This was followed in November 1993 by a new Russian military doctrine that referred to the need to protect Russian citizens in the other former Soviet republics against the suppression of their rights and freedom.[3] This provided a rationale and policy foundation for continued Russian engagement in the Transcaucasus.

Just as Moscow sought to assert a more disciplined Russian involvement in the region, a change of extraordinary consequence took place in Azerbaijan. In May 1993, Russian forces pulled out of Azerbaijan at President Elchibey's request. This meant that Azerbaijan alone among the Transcaucasian states had no Russian military bases and no Russian border guards. Without a military presence, Russia had a much more difficult time influencing developments because Moscow was slow to establish a permanent diplomatic presence in Baku (as well as in Yerevan and Tbilisi). This troop withdrawal set back Russia's effort to counter U.S. influence. It also conveyed the sense that, despite the changed rhetoric in Moscow about the importance of the region, this really was another step in the policy of abandonment.

For a period, Russia had difficulties establishing credibility in the Transcaucasus. It was a time that Russians themselves describe as featuring a policy that was "neither active nor creative."[4] As Moscow's direct political control weakened and economic ties that had linked the Soviet Union collapsed (except for the supply of natural gas), Russia was left with only one policy instrument to influence developments in the Transcaucasus—its military and intelligence presence. The departure of Russian

troops from Ganje, Azerbaijan, encouraged Eduard Shevardnadze to believe that, at some point, he too might be able to send the Russian troops in Georgia back home.

Indecisiveness in Moscow about the Transcaucasus created the circumstances leading to the first Chechen war of 1994–96. (It is important to keep in mind that the roots of this conflict are long-standing, going back to the mid-nineteenth century when imperial Russia moved south.) More than any other development in the post-Soviet period, that conflict underlined the link between developments in the North Caucasus and in the Transcaucasus. Russia's decision in 1995 to seal its borders with Georgia and Azerbaijan—especially the Azerbaijani border with Dagestan—had far-reaching political and economic consequences. The only rail connection between Russia and Azerbaijan was cut off and Azerbaijani barge traffic on the Volga-Don canal prohibited. Having pressured or convinced Azerbaijan and Georgia finally to join the Commonwealth of Independent States (CIS), Russia's restrictions on the movement of goods and people were met with outrage in both countries. Azeribaijanis also were prevented from crossing the border into Dagestan for security reasons, which created tensions among the Lezgin minority living on both sides of the border between Azerbaijan and Dagestan.

These developments further eroded support for Russia in Georgia and Azerbaijan. Not only did the political leadership and the people in these two countries believe Moscow continued to support the Abkhaz and Ossetians against the Georgians and the Armenians against the Azeris, but now the Russians were seemingly punishing them for Russia's failures in Chechnya. The government under Boris Yeltsin also interrupted remittances from Georgians and Azeris living in Russia to their relatives in the Transcaucasus.

Deprived of what remained of their traditional markets in Russia, Georgia and Azerbaijan increasingly turned to trade with Turkey (and, to a lesser extent, Iran). Just when Russian policy needed economic and political as well as military instruments available in the Transcaucasus, Moscow's sanctions weakened its influence without significantly limiting outside support for the Chechens.

The growing instability in the North Caucasus, especially in Chechnya, raised questions about the security of the early oil pipeline to Novorossiysk. The war in Chechnya tended to ratify the U.S. government's (and the oil companies') view that multiple pipelines through the region were the only way to ensure that Azerbaijani oil reached Western markets. More important, the combat in Chechnya undercut the rationale for an main export pipeline route through Russia—even one that might bypass Chechnya—further weakening Russia's long-term economic influence in the Transcaucasus.

The timing of the Chechen uprising could not have been worse for Russian objectives in the Conventional Forces in Europe (CFE) process and the negotiations surrounding the "flank agreement" covering geographic limits on Russian deployments of military equipment, including to the North Caucasus military district. With the upsurge in military activity in the North Caucasus, Moscow sought relief from the CFE limits on artillery and armored vehicles. An agreement with the United States and other NATO countries that allowed a temporary breaching of these limits raised deep concerns in Georgia and Azerbaijan. They were convinced the Russians could now deploy those forces to existing Russian bases in Georgia and Armenia.

Unable to persuade NATO countries that the CFE flank agreement was a problem, Azerbaijan and Georgia joined Ukraine and Moldova—which shared concerns about the flank agreement—in 1996 to create the so-called GUAM group (named after the first letter of each member state). The initial objective of GUAM was to resist Russian efforts to alter the CFE framework. (With the participation of Uzbekistan, GUAM has since become GUUAM. Following a meeting of the five GUUAM leaders in September 2000 at the UN Millennium Summit, they decided to establish a more formal group with broader interests in cooperation. One of their early economic objectives was to restore the "silk route" trade link between Europe, the Transcaucasus, and Central Asia.[5])

The inconsistency and unpredictability of Russian policy in the Transcaucasus until 1994, plus the distraction of the Chechen war that followed, had these consequences:

- It gave Georgia and Azerbaijan an opportunity to develop a sense of political and economic independence from Moscow and closer cooperation with each other because of common interests in oil and gas transportation;
- It drove increasingly isolated Armenia into the arms of Russia, but this Russian-Armenian alliance retarded Moscow's effort to play a more active role in Azerbaijan, especially to counter the U.S. advantage in developing the energy sector; and
- It helped the United States extend its political and economic influence in the Transcaucasus.

Russian policymakers saw that they were failing on two essential geopolitical points. First, Russia was unable to create a belt of friendly states along its new southern frontier with the Transcaucasus. Relations with both Georgia and Azerbaijan cooled. As the war in Chechnya went badly, Russian allegations that these newly independent states were aiding Chechen forces grew. Closure of the Russian border and transport links was accompanied by a crackdown in Moscow and other large Russian cities against Caucasian residents, in the name of combating terrorism and crime. Azerbaijan's media throughout this period were filled with stories about police brutality (including murder) against its citizens residing in Russia. Second, Russia's military difficulties in Chechnya increased Russian paranoia that Turkey, Iran, and the United States were attempting to undermine Russia's position in the Transcaucasus.[6]

NEW ASSERTIVENESS UNDER YELTSIN

The numbers of Russian military in the Transcaucasus declined by 1994—for budgetary reasons as much as the need for additional forces in Chechnya. Fewer

Russian soldiers in Georgia and Armenia did not, however, reduce Moscow's influence there. Russian diplomatic activity became more assertive in an attempt to compensate, and Moscow appointed special negotiators for the Abkhaz and Nagorno-Karabakh conflicts.

Moscow also became more involved in Caspian oil politics, pushing more vigorously on behalf of Russian oil companies in the development of energy resources. This resulted in part from pressure on Yeltsin by the oil oligarchs who had failed in their initial efforts to conclude production-sharing agreements in Azerbaijan. They wanted Moscow to support Russian companies as Washington supported American firms.

Lukoil's experience early on in Azerbaijan unnerved the Moscow oil barons. The Russian giant was a natural to play a lead role in the international involvement in Azeri oil development. The president of Lukoil, Vagit Alekperov, is an Azeri himself and on close terms with Heydar Aliyev.[7] Lukoil appeared to have an inside track against most Western companies. Yet, Lukoil was almost left out of the "contract of the century." Aliyev gave Lukoil a 5 percent share in the contract at the last minute to avoid antagonizing Russia over signing an agreement with a U.K.-U.S.-led consortium. Even then, it was necessary for foreign oil companies to "carry" Lukoil (with capital) in this PSA.

The implication of this experience was clear for Russian energy companies: alone, even the largest among them lacked the financial resources to compete on equal terms with the Western oil giants. They needed Moscow's political muscle in the region to make up for their commercial weakness. Moscow was ready to intervene after Aliyev had ignored Russian warnings about encouraging Western involvement in the Azerbaijani energy sector.

Demarcation of the Caspian Sea became the most visible manifestation of the new Russian assertiveness.[8] If Lukoil could not dominate oil development in the Caspian, perhaps Russia could block outside participation by questioning the legal status of contracts signed for developing offshore energy resources. Little more than a week before the signing of Azerbaijan's "contract of the century" on September 20,

1994, Moscow sent a diplomatic note to Baku saying, "The unilateral actions with regard to the Caspian are illegal and will not be recognized by the Russian Federation."[9] The Russians challenged Azerbaijan's standing to offer concessions in the Caspian without the permission of all five littoral states.

Russia tried to bring the other states along with its legal argument that the Caspian (because it was more a lake than a sea) was subject to a condominium of sovereignty requiring the approval of all to develop these resources. The fuzzy legal precedent for the condominium view was based in part on Soviet-Iranian treaties of 1921 and 1940 that required joint ownership and joint use of the Caspian for navigation and fishing (but not for oil and gas resources). Determined Azerbaijani legal arguments in favor of sectoral allocations for each state for subsea resources ensured a standoff.

As the legal issues regarding a body of water claimed in varying degrees by five countries were not complex enough, the politics are worse. As Russian policy toward Caspian demarcation has evolved, it has harmed Russian-Iranian relations. At the outset, the Russians acted as if Caspian demarcation was a bilateral issue with Iran. The Iranians were quite happy with the initial Russian position because it made Iran and Russia the determinate factors on Caspian legal issues. But Moscow had to bring the three ex-Soviet republics along. As time went by, it became clear that not only Azerbaijan but also Kazakhstan and Turkmenistan would refuse to fall in line with the condominium approach since each would benefit more from sectoral allocations.

In 1998, oil discoveries in the Caspian's north and central regions (offshore Russia and Kazakhstan) gave Russia an incentive to exploit these resources. Moscow saw that a condominium approach could limit the development of its own Caspian oil and gas resources. The result was a bilateral agreement between Russia and Kazakhstan to delimit the seabed to provide access to subsea mineral resources with joint use for dealing with fishing, shipping, and environmental problems. This increased tension with Iran, which began to quarrel publicly with Russia over demarcation.[10] It remains to be seen whether Russia's moving to a more reasonable

position with the ex-Soviet states bordering the Caspian has damaged Russian-Iranian ties.

In response to determined U.S. and Turkish efforts to promote an pipeline from Baku to Ceyhan, Moscow pressed for its successful early oil route to Novorossiysk to become the main export pipeline. But in 1999, the resumed Chechen war left this early oil pipeline, which ran through Chechnya, useless. The Russians quickly built a bypass pipeline through Dagestan, reestablishing the connection to Novorossiysk. They also increased their political opposition to the Baku-Tbilisi-Ceyhan route for oil from Azerbaijan and the Trans-Caspian Pipeline for gas from Turkmenistan. They threatened to cut off natural gas to Azerbaijan and Georgia if these projects went ahead.

PUTIN BUILDS ON YELTSIN'S ASSERTIVENESS

President Vladimir Putin, Boris Yeltsin's handpicked successor, has continued the approach of trying to blunt U.S. influence in the Transcaucasus and reestablishing Russian dominance there. He has tried to mimic American success in the region by emphasizing energy diplomacy and naming his own special representative for the Caspian. He has publicly reasserted a direct linkage between Russian oil and geopolitical interests.

In the early days of Caspian energy development, Moscow permitted Lukoil and other Russian oil and gas enterprises to operate more or less according to their self-determined commercial interests. Rather than allowing oligarchs to dictate Moscow's policy as Yeltsin did, Putin has pushed the oil companies to advance the country's geopolitical interests. In Azerbaijan, for example, Lukoil has been behaving less like a commercial company and more like a chosen instrument of Russian government policy. During the Yeltsin period, Lukoil kept to the background as the Azerbaijan International Operating Company made its decisions on early oil pipelines. Under Putin, Lukoil has been outspoken in its opposition to an export pipeline to Ceyhan.

Moscow's activist energy policy took concrete form on July 25, 2000, when a new Russian consortium, the Caspian Oil Company (COC), was created. Bringing

together the companies Lukoil, Yukos, and Gazprom, COC represented a larger, direct challenge to American and other Western oil companies in the Caspian region. Its immediate goal was to obtain licenses for structures in the shallow waters of the northern Caspian.[11] At the COC signing ceremony, Gazprom's deputy chairman, Valery Remizov, noted that "each of us has an interest in the Caspian region, the more so in that Russia has a geopolitical interest there."[12] A day later, the Russian press reported that Iran had invited COC to explore the shallow areas of the Iranian shelf.[13]

Still, the question is whether COC has the resources to compete next to the big Western oil companies. Front-end costs are huge—exploration well costs alone exceed $50 million apiece.[14] COC, made up of three very large but capital-strapped entities, lacks the money to participate everywhere oil is found in the Caspian and will not be able to determine on its own how this oil reaches its market. Nonetheless, COC's existence signals Russia's intention to be a significant player in the Caspian.

In any event, naming special representatives and creating oil consortia will not be enough. Recent developments raise particular concerns for Russia: potentially significant discoveries at Kashagan in the Kazakh sector of the Caspian have added to pressure to find additional transport routes out of the Caspian; the discoveries of significant natural gas in the Shah Deniz fields off Azerbaijan threaten Russia's gas market in Turkey as well as its gas supply monopoly in the Transcaucasus; and the continued U.S. pressure to gain the support of Kazakhstan for the Baku-Tbilisi-Ceyhan pipeline has raised the political and commercial stakes for Russia.

It is clear that if this were a purely commercial competition, COC and other Russian entities would be secondary participants in both the development and transport of Caspian energy resources. Russia, however, views the Caspian energy scene and the role of Russian energy companies from a geopolitical perspective. That is, Russian involvement in energy development and transportation is an element in ensuring Moscow's political preeminence in the region. This political objective—and the recognition of Russia's influence in Caspian energy issues by both regional and Western governments and the Western oil companies—ensures that Russian

companies are more deeply involved than simply commercial factors would dictate. In addition, the Russians can be expected to use other means to counter growing Western and especially U.S. influence. These include the renewed threats against Azerbaijan and Georgia to counter support to the Chechens; delaying the withdrawal of Russian forces from Georgia; and redeploying additional military equipment from Georgia to Armenia, knowing that this would increase pressure on Azerbaijan.

Also in pursuit of this objective, Putin has flexed Russia's economic muscle where it still is most effective—in the gas sector. Gazprom, with Russian government support, has managed, through a combination of a renewed deal for Russia to take Turkmenistan's natural gas production and implementation of the $3 billion Blue Stream project to provide Turkey with natural gas, to effectively kill the U.S.-sponsored TransCaspian Gas Pipeline. This project would have provided Turkmen and Azerbaijani gas to Turkey via a pipeline under the Caspian.

The company has used similar means to undercut a gas supply arrangement Georgia had with an American company. With a massive debt to Russia for previous deliveries of gas, Georgia is particularly vulnerable to Russian pressure as it seeks rescheduling of its obligations in accordance with an IMF program. Tellingly, Russia interrupted gas shipments to Georgia during the winter of 2000–01.

The message is plain. As long as Russia is a monopoly supplier of natural gas to Georgia, it will use that power to advance its geopolitical objectives in the Transcaucasus: to weaken the Georgian-Azerbaijani commitment to the Baku-Tbilisi-Ceyhan pipeline; to create pressure on the Chechens by closing the Georgian border with Chechnya; and to punish Shevardnadze for his country's rapid movement toward the West.

Russia has now shored up its broader position in the Transcaucasus. It has scaled back the commitments Yeltsin made during the 1999 OSCE summit in Istanbul to withdraw Russian forces from Georgia. By imposing a visa regime on Georgia and by threatening to do so with Azerbaijan, it has reminded both countries that their citizens living in Russia (and their remittances) are vulnerable. As long as Georgia and Azerbaijan remain dependent on Russian natural gas for winter heating and

electricity, it can force both countries to "moderate" their pro-Western behavior. It also has weakened the GUUAM group through less than subtle pressure on political leaders with a tenuous hold on power in Moldova and Ukraine.[15]

At the same time, the war in Chechnya is profoundly affecting Russian policy in the Transcaucasus. Russia has become bogged down in another quagmire that threatens to spill over into other parts of the North Caucasus, including Dagestan and Ingushetia.[16] Hardening attitudes in Moscow are favoring a military solution to the conflict—no matter the cost to longer-term Russian interests in the region. That has increased the value of the existing Russian bases in Georgia and Armenia and has reduced Moscow's incentive to settle the Abkhazian, Ossetian, and Nagorno-Karabakh disputes. When these conflicts are resolved, the justification for the bases disappears.

In sum, Russia was least prepared of all the regional powers to deal with the new reality of an independent Transcaucasia and floundered badly. Under Putin's leadership, however, Russia has regained significant initiative in Georgia through military pressure and controls over natural gas supplies. Putin's January 2001 visit to Baku was aimed at reminding the ailing President Aliyev that Moscow had political, economic, and security interests in the Caspian. In Armenia, Russia has continued its role as the country's only dependable security guarantor against both Azerbaijan and Turkey. Alone, U.S. economic and political incentives for the long-term closer association of Transcaucasus states with the West will not eliminate Russia's aggressive influence.

5. REGIONAL POWERS: IRAN

Tsarist Russia, and later the Soviet Union, had traditionally represented the main threat to Iran's independence, territorial integrity, and ambitions. Much of this competition has played out over the Transcaucasus. Before the late eighteenth century, Iran had three thousand years of involvement in the

Transcaucasus, while Russia had little. Then the Russian Empire moved south. Russia occupied Georgia in 1796; Azerbaijan was ceded to Russia in the Treaty of Gulistan in 1813; and Armenia and Nakhichevan went to Russia in 1828 under the Treaty of Turkmanchi.[1] The historical process of Russian engagement in the Transcaucasus left Iran with significant Azeri and Armenian minorities within its own borders.

IRAN'S EARLY FUMBLES

With the collapse of the Soviet Union, Iran's strategic position vis-à-vis Russia changed dramatically. Now five new states (in the Transcaucasus and Central Asia) form a buffer between Iran and Russia. Equally important, several of these states share a similar cultural and, except for Georgia and Armenia, Islamic (if not Shiite) background with Iran.[2] If Russia emerged from the Soviet system with a difficult geopolitical situation, Iran's geopolitical situation was vastly improved—or so it seemed.

While Russia remained a significant regional competitor in the Transcaucasus, Iran also saw the potential for a more cooperative relationship with its giant neighbor but proceeded cautiously for a number of reasons.

- It wanted to avoid being accused of encouraging secession in the USSR, since its own problem with secessionist-prone populations (for example, Kurds and Azeris) made Iran vulnerable to retaliation.
- Russia provided an important market for Iranian products and, more important, was the only significant source of arms and high technology for nuclear research and military purposes.
- Iran realized that Russia could be a useful ally to deal with more critical threats to its security interests in the Transcaucasus originating from Turkey and the United States.
- It had suffered from massive inflows of refugees from Afghanistan and Iraq and did not want to face new ones from conflicts in the Transcaucasus.[3]

In early 1992, Iran sought to mediate the struggle over Nagorno-Karabakh. It hoped to block Turkish influence and prevent the emergence of a strong Christian Armenia or a strong Azerbaijan with potential territorial claims on Iran's ethnic Azeri regions. Iran also recognized that the longer the Nagorno-Karabakh conflict continued, the more active Russia would become as a regional competitor.[4] Two

Iranian-mediated cease-fires were ignored, and another was observed for little more than a week.[5]

The election of Abulfaz Elchibey as president of Azerbaijan in June 1992 following this unsuccessful diplomacy was an even bigger worry to Iran. An ardent pro-Turk (he wore a lapel pin with the image of Kemal Ataturk), Elchibey also favored a "greater" Azerbaijan. He called upon Azeris in northern Iran to break away and join their fellow Azeris in "Northern Azerbaijan."

Frustration over their failed mediation efforts and anger at Elchibey's anti-Iranian policies led the Iranians to shift to a pro-Armenian policy. Not only did they see this as countering Elchibey and the Turks, but it also helped their relationship with Russia, for Elchibey was anti-Russian as well. The Armenians, already under economic blockade from both the Azerbaijanis and the Turks, regarded their border with Iran as their only lifeline to the outside world should their border with Georgia be closed. (During the fighting with Azerbaijan, the gas pipeline through Georgia to Armenia was regularly sabotaged.) Iran's move toward Armenia also created a virtual blockade of Azerbaijani's exclave of Nakhichevan, which also needed its border with Iran open. The Iranians slowed approvals for Azerbaijani goods going through Iran to Nakhichevan by road and limited Azerbaijani truck traffic through their country. Thus, the several hundred meters of border with Turkey became significant as Nakhichevan's only land connection that did not cross into either Iran or Armenia.[6]

IRAN AND AZERBAIJAN: ALIYEV AND OIL

The change of leadership from Elchibey to Heydar Aliyev only marginally helped Iran's relations with Azerbaijan. In Aliyev's eyes, Iran now was pursuing an unvarnished pro-Armenian policy. Ever careful, Aliyev understood the influence Iran exerted through its economic links with and transport routes to Nakhichevan and Armenia. At the same time, he was wary of Iran's growing ties with Russia. While he quickly discarded Elchibey's overt "greater Azerbaijan" policy, Aliyev did speak out on the rights of Iranian Azeris to travel freely and mark their cultural heritage.

The Iranian-Russian rapprochement also reflected oil developments in the Caspian region. Iran watched anxiously as Western and especially U.S. companies successfully negotiated production-sharing agreements with Azerbaijan. After Russia's last-minute entry into the "contract of the century," Iran thought it too had a right (since both Russia and Turkey were now participants) to a share of the Azeri/Chirag/Guneshli concession and asked Aliyev for a piece of the action. Washington quickly warned Aliyev that American companies could not participate if Azerbaijan included Iran in the consortium for even a nominal percentage. In the end, the Azerbaijan government turned down Iranian participation in the initial concession. This was a major embarrassment for Iran— to be cut out of energy development in its backyard. It blamed the United States. Compounding this setback, Teheran was told that there was no room for a route through Iran in the multiple pipeline strategy for early oil exports.

IRAN AND RUSSIA: PARTNERS OR COMPETITORS IN THE CASPIAN?

Iran's only hope to regain lost energy opportunities in the area was to stick with the initial Russian position that jurisdiction regarding the undersea resources of the Caspian belonged to all five littoral states under a condominium arrangement. Aliyev granted a 10 percent share to an Iranian oil company, OIEC, in the BP-led Shah Deniz concession in hopes of softening the Iranian position on the demarcation issue. He shrewdly understood that the United States could do little about this since there were no American companies involved in this concession.

While participation in Shah Deniz took some of the sting out of their earlier loss, the Iranians did not change their position on demarcation of the Caspian. It did convince them that they must develop a bigger stake in energy production and transport, not only in Azerbaijan but in Turkmenistan as well. Iran's own energy interests in the Caspian now have become predominant in the eyes of Iranian policymakers.[7] Teheran has also watched Putin's assertiveness on energy issues with growing concern.

Energy, once an impetus to draw Azerbaijan's big northern and southern neighbors closer together, now has made Iranian-Russian relations more competitive. In response to the change in the Russian position noted above, Teheran now argues that each of the littoral states should have equal 20 percent sectors in the Caspian,[8] even as Moscow (with the agreement signed in Baku during Putin's visit in January 2001) has moved closer to the Azeri position of allocating sectors based on established maritime boundaries.

Russian and Iranian positions on pipelines—both gas and oil—also are now at variance, and this has led to friction. Russia is not anxious to see outlets for Caspian energy resources run through Iran. Iran is pushing ahead with its own natural gas pipeline to Armenia, which threatens a Russian monopoly. Russia and Iran are competitors as producers and shippers of gas to Turkey as well. TotalFinaElf is reportedly working with Kazakhstan on a study of a possible oil pipeline to Iran for that country's oil. While the implications of this arrangement would be significant for U.S. and Turkish interests in the Baku-Tbilisi-Ceyhan pipeline,[9] the Russians also would see this as a threat. In effect, commercial interests are working against the political alliance between these two regional powers, Russia and Iran, on the Transcaucasus.

The struggle for control of oil deposits and their transport in the Caspian has led to an arms buildup. Russia has strengthened its naval forces, including ships and naval infantry, and initiated a meeting on May 24, 2001, of the CIS Collective Security Treaty members in Yerevan.[10] Iran observes these developments with dismay. Unhappy that its treaties with the Soviet Union of 1921 and 1940 did not distinguish between civilian and naval vessels in allowing the right of free passage, Iran has expressed concerns about the new Russian activity.[11]

Iran faces two challenges: dealing with the American policy of blocking its efforts to engage more deeply in the Transcaucasus in mediating the Nagorno-Karabakh dispute and in facilitating energy development and adjusting to Putin's greater assertiveness toward the Transcaucasus and Central Asia. The regional strategic triangle of Moscow-Ankara-Teheran has become more complicated for the Iranians

because of the entry of the United States as an active player and because of the importance of Turkey as a market for Iranian gas or Turkmen gas shipped via Iranian pipelines.

IRANIAN LIMITS IN THE TRANSCAUCASUS

Iran's influence on developments in the Transcaucasus is restricted. Like the United States, it is hobbled in its relations with Azerbaijan by the perception that it supports Armenia over Azerbaijan. Teheran also has found it difficult to influence domestic Azerbaijani politics. In response to these efforts, Azerbaijan has sought to discredit Iran in the eyes of Moscow by accusing Teheran of exporting "Wahabism," a particularly puritanical brand of fundamentalist Islam, to Azerbaijan.[12]

Domestic circumstances have forced Iran to continue to tread lightly. On the one hand, there are non-Azerbaijani Iranians who desire good relations with the small (about 120,000 strong) but economically important Armenian community in Iran. On the other hand, there is the significant (about 15 million) Azeri population in Iran that favors a more pro-Azerbaijan policy. In addition, non-Azeri but fundamentalist forces inside Iran support Shiite Azerbaijan against the "pragmatists" who want a more nuanced position on Nagorno-Karabakh.[13] If liberal forces do eventually gain the upper hand in Iran, an additional concern will arise. A more open and democratic society will lead to increasing demands from the Azeri population in northern Iran for autonomy.[14]

What does this mean for Iran's role in the Transcaucasus? It has a buffer of independent states between it and Russia that (except for Azerbaijan) are friendly to Iran or neutral. It carefully has established itself in Armenia in a way that advances its interests vis-à-vis Turkey and Azerbaijan. At the same time, it has struck agreements with Turkey on shipping gas and has dangled the possibility of advantageous swap agreements with Azerbaijan for oil.[15] It is working with Russia to develop a north-south transport corridor to link India, Russia, and Iran via the Caspian.[16] This is an obvious challenge to the GUUAM group's proposal for a "Great Silk Route," an east-west transport connection and telecommunications corridor.

Iran has not prevented either U.S. or Turkish engagement in the region. It finds itself at odds with Russia over the Caspian demarcation issue. Its only solid foothold in the Transcaucasus is its relationship with Armenia. Because of aggressive American diplomacy, it remains largely frozen out of participating in the development of Caspian energy resources and their transport.

More than Russia, Iran has major inhibitions about accepting a U.S. presence in this region. It is unlikely that even a warming in overall U.S.-Iranian relations would change Teheran's view of Washington being an unwelcomed outside power in the Transcaucasus.

6. REGIONAL POWERS: TURKEY

Among the regional powers, Turkey was the most energetic and in many respects the most successful in accomplishing its objectives. Under the late President Turgut Ozal, Turkey saw the collapse of the Soviet Union as an opportunity to expand Turkish influence in Azerbaijan and Central Asia, where there were strong Turkic cultural connections and significant security implications. Turkey had more opportunity to maneuver than either Russia or Iran, although it recognized the dangers of straying too far from the West, especially from the United States.[1]

TURKEY AND THE UNITED STATES AS ALLIES IN THE TRANSCAUCASUS

In the initial stages of independence for Azerbaijan and the Central Asian states, Ankara saw advantages to using its American connection that offered protection against adverse reactions from a Russian state intent on guarding its prerogatives in a traditional sphere of influence. The Turks could promise not only bilateral relations with a relatively advanced and prosperous state on Europe's doorstep but also help to their newly independent neighbors in developing relations with the remaining

superpower. Turkey also could now demonstrate it was a serious player in an area of interest to the United States and Western Europe. This would help in its efforts to join the European Union and conceivably bolster the Turkish position on issues such as Cyprus, its observance of human rights, and energy requirements for its growing economy.

The United States supported Turkey taking this vanguard position in the Transcaucasus (at least in Azerbaijan and Georgia) and Central Asia. Turkey provided certain resources to the extent it could, and Washington believed that Turkey could exert influence in this region more effectively than the United States. Further, actions that seemed to emanate from Turkey were less likely to antagonize Moscow than direct actions by the United States. Moreover, having Turkey in the vanguard would pose an important counterweight to Iran's attempts to increase its role in the region. The United States hoped that the combination of Turkish influence with Azerbaijan and its own influence with Armenia might be enough to settle the Nagorno-Karabakh conflict. In sum, it was in the interest of the United States to have a democratically inclined and market-oriented Turkey conduct an active foreign policy in the Transcaucasus.

Turkey was among the first Western countries to open embassies in Georgia, Azerbaijan, and the states of Central Asia. Had it not been for the Nagorno-Karabakh conflict, there would have been considerable pressure, especially from business circles in eastern Turkey, to open a Turkish embassy in Yerevan as well, despite the age-old animosities. Almost as important in cementing Turkish relations with the new states was the initiation of scheduled air service by Turkish Airlines. For the first time, both Georgia and Azerbaijan had a transport link to the West that did not go through Russia. This enabled the Turkish business community to establish a foothold in these states well ahead of North American and European competition.

TURKISH SUCCESS AND FAILURE

This early success had its downside. There was a tendency for some Turks to overestimate Turkey's actual influence in exploiting its cultural and historic ties and to imagine in a certain romantic way an Ankara-led community of Turkic countries extending from the Black Sea to China. The reality is that the further into Central Asia one goes, the less powerful is Turkey's attraction. Even in Azerbaijan, where the language is the closest and, during the time of Elchibey, pan-Turkic sentiments were strongest, the "big brother" attitude of the Turks wore a little thin among the proud Azeris. Most important, Turkey's ability to provide aid and technical help was limited.

Turkey lost an early opportunity for an opening to Armenia when it succumbed to Azerbaijani pressure and imposed an economic blockade on Armenia at the height of the fighting over Nagorno-Karabakh. While domestic politics in Turkey made normal diplomatic and economic relations with Armenia unlikely, cutting links deprived Turkey of any influence there. The blockade also gave Iran an opportunity to strengthen its political and economic position in Armenia while denying Turkish commercial interests the chance to develop a new market.

Turkey also stumbled in Azerbaijan, as did Iran, during the transition from Elchibey to Aliyev. Having established such strong ties to the major pan-Turkic political forces in Azerbaijan—the Popular Front and the Musavat Party—Turkey was leery of Aliyev, the former KGB general. Aliyev reciprocated these suspicions. This standoff spilled over into the oil sector. Once in power, Aliyev took a cool view of the preceding government's March 1993 agreement to sign an oil contract with a group of Western companies and of Elchibey's commitment to construct a Baku-Ceyhan pipeline via Nakhichevan.[2]

Although more coordinated than Russian policy, Turkish efforts, especially in Azerbaijan, suffered from various politicians and officials often sending conflicting or misleading signals about government positions. When Suleyman Demirel became president of Turkey, he actively pushed ties with the Turkic countries of the NIS and maintained a good relationship with Aliyev. The government of Prime Minister Tansu Ciller was meanwhile emphasizing oil development and transport. Turkish

military and intelligence services were establishing their own, often uncoordinated, links. Turkish businessmen likewise had their own contacts in Baku. A coup attempt against Aliyev in the spring of 1995 raised questions about connections between Turkish intelligence, military, and business interests and the Azeri coup plotters. It took several years to overcome the ensuing mutual distrust.

TURKISH RELATIONS WITH GEORGIA

Turkey had extensive cultural and other interests in Georgia among the Abkhaz and other Caucasian nationalities that had a diaspora presence in Turkey. Successive Turkish governments recognized the importance of good relations with Georgia as a regional counterbalance to both Russia and Armenia.[3] The Georgian-Turkish border represented a natural entry point to the Transcaucasus for Turkish commercial interests. Given the paucity of direct economic contacts with Armenia, and with the Nakhichevan region of Azerbaijan representing such a small market, Turkish trade to and through Georgia to Azerbaijan became important. As Turkey focused on a pipeline route through Georgia, the importance of good relations became more critical. It is no surprise, therefore, that Turkey began a military and security assistance relationship with Georgia aimed at bolstering Shevardnadze's independent position. Shevardnadze's January 2001 visit to Turkey reinforced these ties.

In November 1999, after enormous U.S. efforts, the leaders of Azerbaijan, Georgia, Kazakhstan, and Turkey met in Istanbul to sign the political agreement, witnessed by President Clinton, for the 1,740-kilometer Baku-Tbilisi-Ceyhan pipeline. This agreement represents a major political triumph for Turkey's diplomacy in the Transcaucasus—that is, if it actually is built. With Demirel's departure as president, there were inevitably changes in Turkey's external relations. Turkish policy under new president Ahmet Necdet Sezer has been less romantically pan-Turkic and more practical in pursuing the best deal for future energy supplies. Recently, the Turks have struck deals with Russia, Turkmenistan, and Azerbaijan for supplies of natural gas. In addition to the Blue Stream gas project (for supplying

Russian natural gas to Turkey via a pipeline laid under the Black Sea), there has been a significant expansion of Turkish trade and investment with Russia, and Turkey has undertaken a major diplomatic effort to improve bilateral ties with Moscow in the interests of preserving a balance in the region.

Among the regional powers, Turkey has been most effective in increasing its political and commercial influence in Georgia and Azerbaijan since their independence. It has achieved diversified access to regional supplies of oil and gas as well as establishing Turkey's position as an indispensable player in regional energy transport networks, all without impairing its relations with Russia.

7. THE TRANSCAUCASUS IN 2001

In the nearly ten years since independence, each of the Transcaucasus states has seen relations with each other, with the regional powers, and with the United States transformed. That they have survived the challenges of war and political and economic transition with their independence intact is truly an achievement in itself. They all, however, remain weak and vulnerable states whose people, for the most part, have lost faith in the ability of their political leaders to deliver peace, democracy, and a better life. Increasingly, outside powers are popularly blamed for being concerned only about geopolitics and energy.

ARMENIA: THE HEMORRHAGE INTENSIFIES

Armenia has become largely dependent on U.S. economic assistance and remittances from diaspora Armenians.[1] The continuing Russian military presence protects Armenia from Turkish and Azerbaijani threats. Moscow's protests about growing American influence in the region notwithstanding, Russia probably welcomes this division of labor in Armenia. Lacking the economic means to sustain it, Russia would not relish the prospect of absorbing Armenia in the event of a state

collapse. (Note the reluctance of Moscow to pick up the tab for Belarus, which often has sounded eager to join Russia in a new union.)

Despite the external support, Armenia has not been able to overcome chronic political instability (including the assassination of its prime minister and several members of parliament in the fall of 1999) and its own economic underdevelopment. The net result is a steady hemorrhage of its population (some say as many as 2 million since independence) leaving for better lives in Moscow or California.[2] The standoff with Azerbaijan over Nagorno-Karabakh and the never-ending quarrel with Turkey over the Turkish persecution of Armenians before and during World War I are a drag on the economy.

The failure to achieve peace with Azerbaijan has cost Armenia the chance to play a direct role in the development and transport of Caspian energy. A pipeline through Armenia would be shorter and probably cheaper than the Baku-Tbilisi-Ceyhan alternative. Armenia was unwilling to pay the political price, either internally or with the diaspora, that would have accompanied a peace agreement in 1995–96 as pipeline decisions were being formulated. Now it is too late for an accord to change the Baku-Tbilisi-Ceyhan route in Armenia's favor.

Since the removal of Levon Ter-Petrosian as president and his replacement by Robert Kocharian, democratic development has been hampered by clan and mafia rivalries. Thus, the political leadership is in a weakened position at the very time strong leadership and popular support are necessary to negotiate peace in Nagorno-Karabakh.

Meanwhile, for all the diaspora ties between the United States and Armenia and the strength of the Armenian-American lobby in Washington, the emphasis on energy diplomacy has marginalized Armenia among U.S. interests in the Transcaucasus. Without oil and gas resources of its own, and no longer figuring in the pipeline game, Armenia sits on the sidelines. This leads some to believe that Armenia represents a potential security threat to any energy transportation system that bypasses it.

GEORGIA: A FAILED STATE?

Georgia remains much as it was in 1992—vulnerable to internal and external ethnic conflicts and dependent on Russia for energy supplies. Unlike Armenians, most Georgians see the local Russian military presence as a threat to internal stability because of past Russian support for Ossetian and Abkhaz separatists. Even in its weak and vulnerable condition, Georgia remains key to the economic survival of Azerbaijan because its port, rail, and pipeline system offers passage to the Black Sea and points west. Georgia has the potential to become an important partner in the transport of Caspian energy resources and consequently is receiving considerable U.S. economic assistance. Its growing relationship with Azerbaijan has demonstrated the advantages of cooperation among Transcaucasian states. Of the three countries, Georgia has made the most progress toward building democracy, but this is very tentative. Moscow's military bases on its soil make Georgia continually open to Russian political pressure.

The Abkhaz and Ossetian insurrections remain threats to Georgia's integrity. The quasi-secession of the southwestern region of Adjaria under Ruslan Abashidza adds to the image of Georgia as a "failing" if not "failed" state. Clans and mafia pose an overt threat to the survival of the Shevardnadze regime.

AZERBAIJAN: POTENTIAL AND UNCERTAIN SUCCESSION

Azerbaijan is in many ways the strongest of the three states because of its oil wealth and the abilities of Heydar Aliyev to walk a tightrope among the competing interests of the regional powers and to use the United States as a balance against Russian pressure. The engagement of companies from the United States, Europe, Asia, and Russia in Azerbaijan's energy development has shored up the country's independence in the face of frictions with Russia and Iran. Still, the failure to resolve the conflict with Armenia over Nagorno-Karabakh, the lack of commitment to fundamental political and economic reform, corruption, and internal political uncertainty because of Aliyev's health leave Azerbaijan vulnerable, just as are Georgia and Armenia.

THE U.S. ROLE

The United States has played an important role in the survival of Armenia, Azerbaijan, and Georgia as independent states. It has been able to

- lead (with Russia) the international effort under OSCE and UN auspices that has kept the Transcaucasus relatively conflict-free since 1994;
- provide economic assistance to Armenia and Georgia, strengthening American influence in both those countries, when neither Russia nor Iran was able to do so;
- ensure access for U.S. companies to oil and gas projects in the Caspian region and advance its pipeline strategy; and
- support the survival of these three countries and achieve highly influential relations with Azerbaijan and Georgia—without alienating Moscow.

America's modest success has come at a price. It has heightened expectations, especially in Azerbaijan and Georgia, that the United States will provide a security umbrella against Russian and Iranian threats. U.S. economic assistance and commercial engagement gave the political leadership in Georgia the mistaken impression that Washington has replaced Moscow as the "patron" with the deep pockets.

Despite the gains in its influence in the region since independence, the United States needs to reassess what its goals are in the Transcaucasus. Over the past ten years, it has moved from a short-term, reactive strategy aimed at conflict termination to a medium-term plan that emphasized development and transport of Caspian energy resources. Now another adjustment is required to formulate a more concerted, long-term strategy that must also deal with the inevitable opposition from Russia and Iran to U.S. activism in this region.

8. THE TRANSCAUCASUS IN THE NEXT DECADE: AMERICA'S ROLE

The challenge for the United States is how to help create a zone of peace and economic and political growth in an area of highly unstable, divided, and politically weak states. This also requires balancing America's interests in the region against its larger interests with regard to Russia, Iran, and Turkey.

Two questions arise: First, can these states prosper? Second, is there anything beyond oil and gas that would justify continued U.S. engagement? The Transcaucasian states can survive; they have for ten years through difficult times. Whether they will prosper is the question for the next decade. That prosperity will rest largely on energy and the potential for becoming a transportation corridor between Europe and Asia.

Unilateral American efforts cannot succeed. The United States does not have the resources for assistance or the domestic political support, given Armenian-American opposition to increasing assistance to Azerbaijan, to carry this burden alone. More important, U.S. interests in the Transcaucasus generally have not been deemed sufficiently compelling to justify a security guarantee for the region against internal or external threats. This could change, however, depending on the direction the war on terrorism takes. More than any time in the past ten years, America's policy initiatives in this area will require coordination with and support from other countries, the private sector, and international organizations. This should include closer integration of the countries of the Transcaucasus into a framework of Western-oriented structures that enhance security, democracy, and economic well-being. In other words, the central objective is to build up the three Transcaucasus countries so that they can meet the needs of their people more effectively and in the process become more stable and secure states for U.S. energy investment and effective partners in the war against terrorism. The United States needs to devise a set of

policies encompassing more than energy in order to ensure that Washington can accomplish its energy and now security objectives.

Such a policy would have many facets.

SHIFTING U.S. ENERGY PRIORITIES

Caspian energy development and its transport will remain a major priority for the United States. Washington has taken this issue about as far as it can on a government-to-government basis: all the necessary political decisions by Turkey, Azerbaijan, and Georgia regarding the Baku-Tbilisi-Ceyhan pipeline are in place. Since the U.S. government is unwilling to provide financing, the energy companies and the financial community need time to determine whether the engineering studies make sense and if the financing package and the necessary commitments of feeder oil are in place for this project to become a reality. The private sector must sort out much of this on its own. For example, unlike BP, Exxon-Mobil is not ready to commit to the Baku-Tbilisi-Ceyhan pipeline without further assurances of oil supplied from other Caspian producers. The willingness of other companies to enter the Baku-Tbilisi-Ceyhan sponsor group, or contribute oil to the pipeline, is still an open question.[1]

This hardly means that the U.S. government need do nothing. It should now support the implementation phase of the political understandings it pressed on companies and governments alike. Specifically, it must make some genuine investment in the project. The U.S. Trade and Development Agency (TDA) announcement that it would provide a $600,000 grant to study modernization of refineries and port facilities in Baku for the import of oil from regions east of the Caspian was a beginning. The Export-Import Bank and the Overseas Private Investment Corporation (OPIC) also should begin to deploy their financial resources. As mergers have reduced the number of U.S. companies (Amoco and Mobil have disappeared, and others may shortly), the relative importance of European companies (especially BP and Shell) has grown. The Bush administration will have to work with other governments, especially in Europe and Japan, in trying to create a new

partnership, convincing hesitant companies to support the pipeline, which should become easier as the Baku-Tbilisi-Ceyhan route demonstrates its commercial viability. BP is estimating a real rate of return of 12.5 percent for investors in the project.[2] (The BP decision to build a billion-dollar gas pipeline along the same right-of-way as the main export pipeline from Baku to Erzurum in Turkey for Shah Deniz natural gas may enhance the financial attractiveness of the pipeline.[3])

In addition, the United States should strive to involve the international financial institutions in the Baku-Tbilisi-Ceyhan pipeline. Commercial agreement on that route first is essential, but international private capital sources and oil company shareholders then will be looking for significant public cover against the political risk. Such a large project—estimated to cost between $2 billion and $4 billion—in an unstable region will likely require public sector involvement, which OPIC, TDA, and Export-Import Bank programs alone cannot provide. This is U.S. earnest money necessary to demonstrate our commitment. World Bank and European Bank for Reconstruction and Development (EBRD) involvement, as well as the participation of European and Japanese export credit and investment insurance agencies, would help spread the risk. It also would help attract private capital for the pipeline at lower rates.

There is another advantage to getting the World Bank involved. With proper safeguards in place, financing for pipeline projects could be used as leverage for reforms, to help move these countries along the road to greater democracy and better functioning market economies. Weak government institutions and corruption at all levels are matters of public concern in all the Transcaucasus states. In both Azerbaijan and Georgia, people suspect that the oil and transit revenues will go mostly to the powerful.

How can energy and pipeline development be combined with these larger objectives in the Transcaucasus? One example of how to do this with support from multilateral financial institutions is the Chad-Cameroon Petroleum Development and Pipeline Project[4] involving the World Bank. It is critical that the financial institutions insist on strict conditionality for participating in the main export pipeline

to ensure that the revenue stream created from the development of the energy and its transport is collected and disbursed in a transparent fashion and for the public good. Elements of conditionality might include:

- Establishment of special accounts to ensure sound management of pipeline tariff, oil and gas royalty, and dividend income.
- Establishment of an oversight committee, including national and international representatives, to monitor the special accounts.
- Publishing the results of regular public audits of these accounts.
- Developing a policy reform agenda (see below) aimed at ensuring market-based development of the nonenergy sector.
- Elaborating an environmental protection plan for the pipeline corridor and the offshore fields in the Caspian.

All this would not be easy to implement. For one thing, Azerbaijan already has its own oil fund[5] and is unlikely to welcome an internationally imposed arrangement. More important, the record of accomplishment of such efforts is spotty at best.[6] Given these difficulties, why push for such a fund at all? First, few existing mechanisms can help establish standards of good governance in the Transcaucasus. Using a fund can provide for both international and domestic oversight in how revenues from these high-valued investments are used. Second, a fund may help restore public confidence that income from energy development and its transportation will provide some broader benefit for society as a whole. Some of these income flows must go to meet social needs such as education, public health, and pensions. Finally, it can help avoid the "Dutch disease," where resource income becomes the sole source of economic growth to the detriment of other sectors of the economy. With the appropriate investment priorities, the fund could direct some of the energy-derived income to the agricultural or industrial sector to help broaden the basis for long-term economic growth.

Such funds also can be used to advance badly needed environmental objectives, including the prevention of damage from pipeline leakage on land and in the Caspian. Governments and companies alike must be clear about respective responsibilities for environmental liability. The companies, however, should not be expected to assume responsibility for preexisting environmental damage to the Caspian, the result of past lack of concern.

While there may be disagreements among the littoral countries over the territorial division of the Caspian, one area of common jurisdiction they can agree on is responsibility for the environment. For example, the World Bank or EBRD might create a private/public fund involving all the companies producing or transporting oil in the Caspian, which would be used to finance projects aimed at protecting the environment of the Caspian basin. An initial focus of such a fund might be of direct economic interest: protecting marine wildlife, in particular the Caspian seal and sturgeon.[7]

ACHIEVING PEACE IN ABKHAZIA AND NAGORNO-KARABAKH

Since late 1994, the Nagorno-Karabakh and the Abkhaz conflicts have been frozen in a "no peace, no war" state. The hostilities have ended, but true peace has been difficult to achieve. The separatist political leaderships in both Nagorno-Karabakh and Abkhazia have had more than seven years to establish quasi-independence. Confronted with significant refugee populations from the conflict and smarting from the loss of control of their territories, Baku and Tbilisi have become more intransigent. Despite significant UN (in the case of Abkhazia) and OSCE (in the case of Nagorno-Karabakh) diplomatic efforts, the parties seem as far from agreement as they were when the fighting ended. In the process, they have become adept at blaming the international community for their own unwillingness to make the compromises necessary to resolve the conflicts. The Azerbaijani, Georgian, and

Armenian publics have been even less willing than their leaders to work out a compromise.

The continuing stalemate is beginning to have an impact on energy development. Securing energy investments has never been the only reason or even the most important reason for settling conflicts in the Transcaucasus. Still, over the past ten years, the impact of unresolved hostilities in Azerbaijan and Georgia on pipeline projects in the region has become more relevant. "No war, no peace" was acceptable, if uncomfortable, while the energy companies made their initial decisions on the development and transport of offshore Azerbaijani oil. The prospective financing of the Baku-Tbilisi-Ceyhan pipeline, possible investment in gas development, and the first phase—substantially more expensive—of full-field development of the Azerbaijan International Operating Company concession increase the exposure of Western investors. The threat of renewed conflict between Armenia and Azerbaijan or of internal instability in Georgia near the pipeline route will make foreign investors wary. Security of pipelines is not a simple technical question of physically protecting infrastructure.

As complex as the conflicts in the Transcaucasus were at the beginning of the independence period, they have become more so with the growing instability in the North Caucasus. The fighting in Chechnya threatens to spread into Dagestan and Ingushetia. This would endanger the carefully constructed bypass through Dagestan for the Russian pipeline north to Novorossiysk. The challenge today is to keep these conflicts from spilling over into the Transcaucasus and becoming another threat to energy development and transport there as well.

Russia's interests in resolving these regional conflicts are complicated and at times contradictory. Moscow's main security concern is the North Caucasus. The Russians believe that Georgia and Azerbaijan are providing supply and training bases for Chechen fighters. Rather than seeking to cooperate with these countries to cut support to Chechens, Moscow mostly threatens to impose travel and trade restrictions, in particular cutting off the supplies through its distribution network of natural gas so critical for energy and winter heating in all three Transcaucasian

countries. In the case of Georgia during the winter of 2000–01, it imposed a visa regime (pointedly excluding those from Abkhazia and South Ossetia) and periodically cut gas supplies. This only reinforces the sense in the region that as long as Russia faces conflict in the North Caucasus, it is unwilling to allow a peaceful resolution to Transcaucasian conflicts.

This seems to be the case in the Abkhaz conflict. The Russians face a significant decision in Georgia that will affect their credibility to honor agreements and test their intentions in the Transcaucasus. At the November 1999 OSCE summit in Istanbul, Russia agreed to close its military bases in Vaziani and Gudauta (in Abkhazia) by July 1, 2001. Putin appears to be having second thoughts about the withdrawal, because pulling out Russia's military presence from Gudauta might affect the Russian peacekeeping operations in Abkhazia. The Russians are citing Abkhaz unease about Russian withdrawal as a reason for turning Gudauta into a center for Russian peacekeepers.[8]

The Russians hold most of the cards. As long as they are concentrating on Chechnya, they will see developments in the Transcaucasus through that optic. Thus, it is to Moscow's advantage to keep the Abkhaz situation unsettled. This can be a pressure point with Tbilisi if the Russians believe that Georgia is not doing enough to support their efforts to regain control in Chechnya. The combination of Russian unwillingness to push for a settlement and the Georgian and Abkhaz inability to compromise makes unpromising the prospects for rapid movement there.[9]

In the case of Nagorno-Karabakh, the mood has been uncharacteristically upbeat. Azerbaijani president Aliyev and Armenian president Kocharian have compelling reasons to put the conflict behind them. Aliyev wants a resolution as part of his historical legacy and as a way of smoothing the succession to his son, Ilham Aliyev. The November 2000 elections in Azerbaijan—flawed as they were—may have provided Aliyev an opportunity to move forward on Nagorno-Karabakh. Kocharian needs to stanch the outflow of Armenians leaving both Armenia and Nagorno-Karabakh, which is damaging the economy heavily.

The January 2001 meeting between Aliyev and Kocharian in France (both were there for the entry of Armenia and Azerbaijan into the Council of Europe) showed that the public emphasis is still on a peaceful resolution of the conflict. Certainly the pace of Aliyev-Kocharian meetings has picked up. More important, the OSCE Minsk Group[10] cochairs began to take a more active role in advancing ideas of their own rather than waiting for proposals to emerge from discussions between the two leaders. There was optimism that the March 3–4 follow-up meeting in Paris—preceded by unprecedented debate on Karabakh conflict in the Azerbaijani parliament—might show that some progress was possible.

New American efforts to energize the peace process also have been under way. The April 3–6 meeting between Aliyev and Kocharian in Key West was mediated by Secretary of State Colin Powell. Because these meetings have been under Minsk Group auspices, they would appear to reflect a high-level understanding with the Russians that it is time for a new drive toward peace. Russian motivations, however, remain unclear.

For reasons of self-interest, Moscow may be ready to work toward a settlement. Moscow realizes that it must move closer to Azerbaijan if it is effectively to counter growing U.S. engagement and expand its involvement in the Azerbaijani oil sector. While the Russians do not need Azerbaijani oil and gas for their own energy needs, they cannot afford to have Baku block them from participating in Azerbaijani energy projects. President Kocharian's September 2000 visit to Moscow lacked the sense of wholehearted Russian support of Armenia that characterized such encounters in the past. Putin said not only that Armenia needed no "preferential treatment" for its economy but that "Russia does not have any special rights in the process of a Karabakh settlement."[11] Nothing significant took place during Putin's September 2001 visit to Yerevan (which was cut short by a day) and the Armenians remained disappointed that the Russians did not do anything substantive to strengthen economic relations.[12]

On the other hand, Putin's visit to Baku in January 2001, while publicly not showing any change in position on Nagorno-Karabakh, did demonstrate that he was

prepared to treat Azerbaijan as a serious partner. Better balance in Russia's approach to Armenia and Azerbaijan may open up the possibility for the OSCE Minsk Group to broker a peace agreement under Russian leadership.

Russia, however, is still walking a tightrope. On the face of it, there is little risk in alienating Armenia. With its focus on Chechnya, Moscow needs Georgia and Azerbaijan on its side, or at least not antagonistic. In addition, of course, Armenia has nothing to offer in the energy sector, where most of Russia's economic interest in the Transcaucasus lies. Still, the Russian military bases in Armenia are important because of Armenia's border with Turkey and Iran, the lack of similar military bases in Azerbaijan, and the closing of some bases in Georgia. Russia does not want to risk the Armenians limiting Russian base activity because of a perceived excessively pro-Azerbaijan stance.

In the past, the Russians have resisted a greater American role in Transcaucasus dispute settlements. They must recognize that, while they have the military might in place to halt or stimulate conflict, they lack the economic resources to support the major resettlement of refugees and reconstruction projects necessary for peace to succeed. They need the United States, the European Union, and the multilateral financial institutions for that effort. Some argue that the Russians have reached that point regarding Nagorno-Karabakh. That could explain why they have endorsed the recent increased Minsk Group activism, including the Key West meeting of Kocharian and Aliyev.

The Russian attitude following the Azerbaijani and Armenian decision not to hold the bilateral summit meeting planned for Geneva in mid-June 2001 would have been one test. Russian press speculated that this "timeout" in the Minsk Group activity would provide an opportunity for Moscow to regain the initiative from Washington. Still, the June meeting of the Caucasian 4 (Russia, Georgia, Armenia, and Azerbaijan) at the Minsk summit of the CIS did not produce any new Putin initiative on Nagorno-Karabakh.[13] Since September 11, however, Moscow and Washington have been focused on the war on terrorism, so this test has been postponed.

There are reasons, however, for Moscow to try to prevent American-led progress in Nagorno-Karabakh peacemaking. Both Russia and the United States recognize that peace in the Transcaucasus reinforces the economic case for the Baku-Tbilisi-Ceyhan pipeline.[14] Nevertheless, Russia realizes that if it fails to convince Azerbaijan it has abandoned its overtly pro-Armenian position, there is little chance that Baku will accommodate Russian desires on developing and transporting its energy resources or on maintaining the only Russian military installation in Azerbaijan—the Gaballa antimissile warning radar station.

Both the United States and Russia need peace, but each on its own terms. Russia apparently believes it cannot afford to cede leadership on peacemaking in the Transcaucasus because doing so would boost the prospect for U.S.-backed pipelines and harm Russian efforts to end the Chechen uprising. A Nagorno-Karabakh peace agreement brokered under international auspices that provided considerable autonomy for that region within Azerbaijan also might not be a precedent Russia would like to see as it tries to resolve the Chechen conflict. The United States needs to reassure shippers and investors alike that the Baku-Tbilisi-Ceyhan pipeline is secure. Security becomes all the more important if the route is to be attractive (compared to others through Russia or Iran) for shipping some of Kazakhstan's oil.

EMPHASIS ON POLITICAL AND ECONOMIC REFORM

Establishing more stable political and economic systems is the toughest challenge in the area. This long-term process requires moving away from the personalistic leadership model. But there are few encouraging signals. Over the past two years, Armenia endured the assassination of its prime minister and other important political leaders. Many irregularities characterized the 1999 presidential elections in Georgia. The 2000–01 parliamentary elections in Azerbaijan were seriously flawed.[15] None of these countries is able to raise incomes or deliver reliable supplies of gas and electricity or replace crumbling infrastructure, in turn increasing popular discontent.

Economic growth and the development of more democratic processes should foster the long-term stability of these countries. As the U.S. assistance program has

evolved in the Transcaucasus, it has put considerable money into Georgia and Armenia for promoting democracy, development of nongovernmental organizations, economic reform, and the growth of independent media. The waiver of FSA 907 restrictions on assistance to Azerbaijan would permit similar programs to be undertaken there. While other donors such as the European Union and the multilateral lenders can provide more overall assistance, the United States can better bring the political pressure necessary to advance reform against factions that resist it. Azerbaijan and Georgia seek United States support to balance pressure from their larger neighbors Russia and Iran (in the case of Azerbaijan). Armenia knows that Washington can influence Ankara. This allows the United States to use the opportunity that this political engagement provides to press reforms in ways that other donors cannot.

All three countries now are members of the Council of Europe, taking on obligations to build a democratic society and observe press freedoms and human rights. These obligations in turn create common standards to use as targets for international follow-up. If the U.S. government works closely with Europe and the international financial institutions, using Council standards as guideposts, there is probably a better chance of success for political and economic reform. While the Council has a poor record of accomplishment following-up elsewhere, this is one of the few tools available in all three countries of the Transcaucasus.

There is considerable frustration among donors and nongovernmental organizations over the slow progress of reform, given the effort and resources that have gone into this so far. The frustration is understandable, but so are the difficulties. Not only do these countries face the transition to an entirely new political, economic, and social system, but they must grapple simultaneously with their unresolved internal and external conflicts as well as pressures from large, insecure neighbors. This is a long-term process, and progress could take a decade or more.

Thus, the U.S. assistance strategy in the Transcaucasus must be a long-term, sustained one. The recent waiver of Section 907 of the Freedom Support Act, will

enable Washington to purse a coherent long-term assistance strategy in all of the Transcaucasus. This should emphasize:

- Developing the institutional and legal framework that reinforces the growth of democracy and observance of human rights and is based on implementing their obligations as members of the Council of Europe.
- Building a civil society through the development of nongovernment organizations and an independent media.
- Undertaking fundamental economic reform aimed at developing the economic structures and policies that ensure closer association with the EU market, building on the July 1999 Partnership and Cooperation Agreements between the European Union and each of the Transcaucasus states.

These general objectives must be translated into specific assistance activities that may look similar to ongoing U.S. programs, especially in Georgia and Armenia. There should be, however, one fundamental difference. U.S. projects should focus on strengthening the capability of these states to become closer to Europe. Using U.S. government resources for such purposes will require close consultation between the administration and the Congress.

Reform is more than a question of resources. As the international community discovered in Bosnia-Herzegovina, absent energetic, persistent follow-up, externally proposed reform programs will not succeed. Even with the lifting of FSA 907 restrictions for Azerbaijan, effective assistance in all these countries requires coordination with the donor community to ensure political supervision of necessary reforms.

The United States and other donors should consider forming a steering board for the Transcaucasus to provide the collective political sense of direction from the outside that no single donor country or institution could muster on its own. The example of Bosnia comes to mind. If there is a Nagorno-Karabakh settlement, the international community will have an opportunity to insist on economic and political

reforms in Azerbaijan and Armenia as part a regional reconstruction and development program. Similarly, multilateral lenders' participation in the pipeline projects will allow the application of conditionality on both Georgia and Azerbaijan.

DEVELOPMENT OF SECURITY RELATIONSHIPS

As long as instability in the North Caucasus threatens to spread and peace remains elusive in Abkhazia and Nagorno-Karabakh, security will be a vital concern for the Transcaucasus states. This has become more critical since September 11. The United States should take the lead in encouraging appropriate relationships with transatlantic structures already in place, especially the NATO adjunct known as the Partnership for Peace. The need is not for security guarantees, which the United States in any case is not willing to provide, but for assistance that aims at developing militaries based on civilian control and increased professionalism that can address a range of new security challenges from pipeline security to anti-terrorism and counterproliferation of weapons of mass destruction.

Until September 11 there was, however, probably no more neuralgic issue for both Russia and Iran than the United States or NATO becoming involved in security issues in the Transcaucasus. Given the success of American involvement in the region on energy, Russian and Iranian sensitivities are to be expected. GUUAM's pro-Western orientation[16] heightens these sensitivities. Iran apparently believes that NATO bases and Israeli listening posts exist in Azerbaijan and has called on Moscow to work with it to keep the United States "away from the region."[17] Moscow worries that NATO will take over its bases in Georgia if it follows through completely on its 1999 Istanbul commitments to withdraw its forces.

It is unclear at this point whether the war against terrorism will modify these attitudes. It is possible that Russia will accept an increased U.S. or NATO security presence if this is seen as supporting Moscow's anti-terrorism effort in the North Caucasus. For example, a U.S. program that increases Georgia's ability to control its own borders to prevent Chechens from moving freely between Georgia and

Chechnya might be welcomed in Moscow. There is no indication, however, that Iran would accept any form of expanded Western security presence in the region.

Developing a meaningful security component therefore will be the most delicate part of a more balanced U.S. agenda in the Transcaucasus. It is important to do so for U.S. national security interests. Further, these countries have legitimate (but not common) security concerns and have a right to turn to the West for some assistance.

The most logical area in which to provide assistance relates to security for energy infrastructure. If the various oil and gas pipeline projects do proceed, Georgia and Azerbaijan will assume significant responsibility for protecting these routes. They do not now have the capability to provide that security. And if foreign companies or outside governments assist with training local forces, the risk is that, once trained and equipped, such forces could be used for political repression. This will require careful monitoring. Western governments rather than oil companies should handle the training and oversight of such forces to ensure they are deployed properly and understand their mission. There may be a role for the Partnership for Peace in training such forces to deal, for example, with terrorist threats and the ecological consequences of a pipeline disaster.

It would be a mistake, however, for the United States to develop security relationships in the Transcaucasus that exclude Armenia. That is why it is important to broaden the security agenda to include more than simply pipeline security. There ought to be programs developed under the Partnership for Peace that would engage Armenia along with Georgia and Azerbaijan to deal with counterproliferation issues. Cooperation between the countries of the Transcaucasus is important to prevent the region from becoming a transit point for weapons of mass destruction. In addition, programs to enhance Armenia-Georgian and Azerbaijani-Georgian cooperation on border security could help in the war against terrorism. Absent a solution to the Nagorno-Karabakh conflict, bilateral cooperation between Armenia and Azerbaijan on border security will not be possible.

IS COOPERATION POSSIBLE WITH RUSSIA AND IRAN?

The United States and its Western partners in the Transcaucasus must accept that Moscow and Iran will regard engagement as a threat to their own interests for the near future. That should not discourage the West from looking for creative opportunities to involve both regional powers in activities that would enable them to demonstrate acceptance of the independence and territorial integrity of the Transcaucasus states and a Western role in the region.

The challenge for the United States will be to manage Russian and Iranian suspicions. Washington has sought to work with Moscow on conflict resolution in the Transcaucasus. It has tried to make clear that its engagement is not aimed against legitimate Russian interests in this region as long as those interests are consistent with the independence and territorial integrity of the Transcaucasus countries. U.S.-Russian cooperation in the war against terrorism could lead to greater understanding and less tension in the management of their respective interests in the Transcaucasus. But the United States should be under no illusions here. American activism in the region since independence has led Russia and Iran to see any U.S. initiative as a challenge. Aggressive diplomatic efforts to promote the Baku-Tbilisi-Ceyhan pipeline have heightened these concerns. This does not mean, however, that Washington can allow Russia and Iran to have a veto over American activity in the Transcaucasus. It does mean that the United States should understand where they are likely to push back.

The United States should welcome the participation of Russian companies in energy development and transport. If the cooperation in the war on terrorism is long term, then Washington could look to Moscow to take the lead in developing the security arrangements for regional peacekeeping activities under OSCE and UN supervision. In the near term, Russia lacks the economic resources to contribute significantly to any "peace dividend" program of reconstruction in the Transcaucasus. It may be possible, though, to develop a regional framework for dealing with the environmental problems of the Caspian in ways that would encourage both Iranian and Russian participation.

Carrying out such a broad strategy in a way that will convince Iran that this is not a zero-sum game with the United States and Turkey for influence in the region will take time. Given the present direction of its foreign policy, particularly its wary attitude toward Iran, there is not much additionally the United States can do to engage Iran in a positive manner. Even were Washington's policy orientation vastly different, Iran is not ready politically to welcome the United States as a partner in the region.

Post-September 11, 2001, there is a possibility that Russia will be less resistant to such U.S. activity in the Transcaucasus. The challenge is shaping Washington's approach so that it plays on common U.S. and Russian interests in ensuring that the region is an area of stability as the war against terrorism continues. Here the greatest burden will fall on the Russians to prove that this is possible. As in the case of Iran, Russian objectives in the Transcaucasus do not leave much room for cooperation with outside powers such as the United States to play a role. It is possible that Russia's intense need to be the dominant country in the Caucasus space will create a variable speed policy toward the United States in the region: first, cooperate with Washington in the fight against terrorism; second, continue to do what is necessary to block the United States from becoming more influential in the Transcaucasus. Nevertheless, the United States must be seen as trying to find opportunities for regional and outside powers to work together in the Caucasus.

Is a regional approach involving Russia and possibly Iran the answer? The Center for European Policy Studies has developed a proposal for a Stability Pact for the Caucasus (first suggested by Turkey's former president Demirel) as a way to explore a more inclusive structure for the region. The center's proposal[18] takes as its model the Southeast Europe Stability Pact[19] agreed to in Sarajevo in July 1999. Starting from an understanding among Russia, the European Union, and the United States, the stability pact for the Caucasus would provide for a Southern Caucasus Community focused on peace and security among the three Transcaucasus states. In addition, there would be a broader Black Sea, Caucasus, and Caspian cooperation process that would include oil and gas development and transport. Political direction

for this effort would come from the trilateral outside partners and the Transcaucasus states, which might invite their direct neighbors Turkey and Iran to become part of a G-8 contact group.

A stability pact for the Caucasus, however, would not necessarily reassure Russia and Iran of the West's best intentions. As long as both these states follow neo-imperial policies in the region, it will be difficult to engage them in a cooperative process with outside powers in the Transcaucasus. At best, the Stability Pact for the Caucasus concept is premature because the political will does not yet exist in the West to push it forward, and Moscow and Teheran are not ready for it.

9. Conclusion: The New Uncertain Environment for U.S. Policy

If there is a policy constant in the Transcaucasus for the next decade, it is that the United States will be dealing with weak states vulnerable to the ambitions of Russia (and to a lesser extent Iran) and the spillover from Russia's ongoing conflicts in the North Caucasus. What will not be constant will be the course of the newly declared war on terrorism and its impact on the region and on U.S. relations with Russia and Iran.

What the United States does in such an uncertain environment will be determined by how much the world has or has not changed since September 11, 2001. It is important that the U.S. engagement in the Transcaucasus go beyond simply keeping these frail states afloat because in prosecuting the war against terrorism it is likely that the United States will need close security links with these countries for overflight privileges and access to support facilities. In addition, all three countries can assist in cutting financial and other help for organizations that are or may be targets of the global anti-terrorism effort.

In the case of Azerbaijan, it is essential to have this moderate, secular, Muslim state firmly embedded in the anti-terrorism alliance. For their part, Armenia and

Georgia can become examples of non-Muslim states living in peace and security as neighbors to Muslim states such as Turkey and Azerbaijan.

The Transcaucasus should become part of a new arc of stability running from the Balkans through Turkey to the Caspian Sea. Important in its own right before September 11, this has become all the more vital as the war against terrorism appears to be long term and uncertain in its breadth and nature. Securing this region with its significant Muslim population will be essential to sustaining the alliance of those engaged in what President Bush has called the "global war on terrorism."

Pursuing the war on terrorism in the Transcaucasus will require a series of comprehensive and long-term steps aimed at ensuring the stability of the nations in the region and finding ways to secure their cooperation. The United States also must seek opportunities to engage cooperatively with Russia in the Transcaucasus despite Russia's past pattern of resisting American influence in the region.

These steps must include:

First, redoubling efforts to resolve both the Nagorno-Karabakh and the internal Georgian conflicts. Recognizing that the near-term prospects for success are slim when it comes to Nagorno-Karabakh, the key to movement will be Russia's willingness to engage with the Minsk Group in pushing both the Armenians and the Azerbaijanis toward peace. Everyone recognizes there can be no stability in the Transcaucasus without a permanent end of conflict between Armenia and Azerbaijan. Expanded U.S. and Russian cooperation during 2001 regarding a Nagorno-Karabakh seemed to reflect a common understanding that progress is possible. Yet, both Robert Kocharian and Heydar Aliyev are in weak positions regarding domestic political support for the compromise both know is necessary to reach a peace agreement.

Similarly, Eduard Shevardnadze cannot count on the Georgians to follow him in the compromises required to settle the Abkhaz dispute. Here, as in Nagorno-Karabakh, the Russian role is critical, but even more complex and ambiguous. On the one hand, the Russians have recently begun to withdraw heavy equipment from their base in Gudauta, supposedly in keeping with their 1999 commitment to close it

down. Yet they retain six hundred troops there as "guards" and intend this to be a base for additional peacekeepers in the zone of the Georgian-Abkhazian conflict. Further, Moscow stands accused by Shevardnadze of responsibility for recent mysterious air strikes in the Kodor Gorge area of Abkhazia. The Abkhaz, for their part, believe that Georgian irregulars with the support of Chechens are operating in this area. Unlike Aliyev and Kocharian, Shevardnadze has been frozen out of any direct contact with Vladimir Putin on the conflict.[1]

Second, America's energy concerns must remain centered on ensuring Western access to Caspian fields.[2] Whether this region produces and transports Kuwait-sized or North Sea-sized petroleum deposits is not that significant at this time. Given the uncertain impact of the war against terrorism on the global energy markets, Caspian production could have a significant marginal impact on overall oil prices and supplies.[3] In addition, there is value in having additional energy resources outside the Persian Gulf region. This oil and gas may be even more critical to the EU countries than to the United States. Therefore, at a minimum, Western energy companies must have a substantial direct involvement in the development and transport of these resources. That means that the U.S. and other Western governments must strengthen their political engagement in the region to ensure that these resources pass securely to world markets.

Third, with the waiver of Section 907 of the Freedom Support Act, it now is possible to work with all three Transcaucasus states on an equal basis through the U.S. assistance program to move them in the direction of greater political stability and market economies. Since these states face external threats, economic and political assistance from Washington would help deal with these problems. A more serious challenge, however, is the lack of popular trust in the present political leadership. No democratic elections, corruption, and inability to deliver basic social services such as education, public health, and pensions contribute to this crisis of confidence. Thus, U.S. assistance must focus on shoring up public support for governments, which in turn need to demonstrate they can develop the ability to meet the social and political needs of populations weary of ten years of difficult transition.

Such engagement will help show people and governments in the Transcaucasus alike that the United States is in the region for the long term.

That said, however, there are limits to America's ability to influence events in the Transcaucasus if Russia and Iran are dedicated to furthering their own influence there rather than cooperating with the United States. As important as the war against terrorism is, U.S. interests in the region do not justify military intervention on behalf of Georgia, Armenia, or Azerbaijan—or even to protect Western energy investments in the region. Aggressive diplomatic support would be tempered by whatever else the United States had on its policy agenda with Russia (for example, NATO expansion, the war on terrorism, arms control) and Iran (for example, Iraq, the Israeli-Palestinian issue) at the time.

The emphasis that President Putin has placed on Russian preeminence in the Transcaucasus for the past two years had signaled a more challenging period ahead for U.S. interests in the region. American progress to date has owed as much to the fact that, for much of the postindependence period, Russia and Iran were weak and preoccupied elsewhere as to good planning in Washington. Those conditions cannot continue indefinitely. Recently, both countries have shown more focused interest in this region.

That focus, however, could be disturbed by uncertainty over the future of Russian-Iranian relations themselves. Will that relationship reflect increased discord in the Transcaucasus region or conceivably a common desire to expel the United States? Despite efforts to spin it otherwise, the March 2001 visit of Iranian president Mohammad Khatami to Moscow failed to overcome the growing rift between Russia and Iran over demarcation of the Caspian Sea.[4] If Iran places its own energy objectives in the Caspian above maintaining close ties with Russia, the competition will grow.[5] Russia no more wants Kazakhstani and Azerbaijani oil to flow through Iranian pipelines than through the Baku-Tbilisi-Ceyhan pipeline. Add to the mix Iran's uneasiness with Moscow's recent steps to strengthen its Caspian naval presence, and the competition could expand to the security area.

Therefore, the United States needs to be prepared for an extended period of tension with both Russia and Iran over its presence in the region. This will require stamina on America's part, given the chronic weakness in the Transcaucasian states. Washington should continue looking for opportunities to work with Russia in both peacemaking and energy development. If it is impossible to build further on U.S.-Russian cooperation in the war against terrorism, then America must be prepared to ride out the rough spots and live with the consequences of Russian unhappiness with U.S. involvement in the region. If Moscow views regional instability as hindering further American diplomatic inroads, it may allow the current "no war, no peace" situation to fester. Blocking the United States is not the only reason why Russia may hold back. Moscow may have no incentive to see rapid progress on finally resolving any of the conflicts involving Georgia, Armenia, and Azerbaijan until it settles the Chechen conflict on its own terms.

U.S. political and economic assistance has made possible the survival of the new states of the Transcaucasus. However, success over the next ten years will depend less on the United States and more on whether Armenia, Azerbaijan, and Georgia can boost their economies and become more democratic societies and enjoy broad public support, or whether they can finally settle their conflicts.

In the end, opportunities for additional American influence are limited. The marginal benefits from U.S. economic assistance will diminish compared to the 1990s as the focus shifts from humanitarian and balance of payments support to institution building and technical assistance. For Azerbaijan, the growing revenues from energy will make Baku less dependent on external aid and therefore less willing to accept donor conditionality.

In the energy sector, the large production-sharing agreements are in place and pipeline routes established. The emphasis will be on implementation and financing of what has already been agreed upon, which will depend largely on the private sector.

The more difficult challenges—building democratic societies, making peace, financing and building the Baku-Tbilisi-Ceyhan pipeline—will require partnership

with other Western governments and institutions and either the acquiescence or active cooperation of Russia. Some senior officials in Washington are seeing the first glimmers of interest from Russian companies in participating in the Baku-Tbilisi-Ceyhan pipeline. If true, that could mark more than a shift in Moscow's attitude toward a project long regarded as anti-Russian in nature.[6] It could mean that Russia now sees distinct advantages to having Western-oriented Azerbaijan, Georgia, and Armenia lined up as part of the fight against terrorism. It is, however, too soon to say whether the warming in U.S.-Russian relations will produce a major change in Russian attitudes toward the U.S. role in the Transcaucasus.

The picture is clearer when it comes to Iran. The poisonous rhetoric from Teheran about relations with the United States in general and Washington's role in the region in particular does not create much optimism when it comes to Iran welcoming more U.S. engagement. Under such conditions, there are few opportunities for engaging the Iranians in any cooperative effort to establish peace and stability in the region, even though there may be differences among Iranian leaders over improving Iran's relationship with the United States. Obviously, any change for the better will help Washington in the war on terrorism. There is, however, no difference in the leadership about Iran's national aspirations in the Transcaucasus and the Caspian region and attitudes opposing a role for outside powers there. It is likely that Iran, even if it does move toward more normal relations with the United States, will continue to see its interests in the region served by undermining a Western-oriented Azerbaijan and reducing Washington's influence in Teheran's backyard.

Despite the challenges, given the events of September 11, the Transcaucasus have become an increasingly important area of U.S. security interests, which means Washington will have to face the necessity of remaining involved in the region for the long haul. Not only are the stakes higher than they were when these states regained their independence ten years ago, but today there is an opportunity for the United States and Russia to cooperate not just globally but regionally. Together, our nations can pursue a common antiterrorist agenda in partnership with Armenia,

Azerbaijan, and Georgia. Will that happen? While it is too soon to say with confidence, Washington should not hold its breath waiting for that brave new world to emerge. Instead, it should look for opportunities to test Moscow's willingness to work with the West on peacekeeping and energy development in the region. If this does not take place, Washington must pursue its interests with its European allies. Too much is at stake to wait.

NOTES

CHAPTER 1

1. This paper, originally completed before September 11, has been updated and a new conclusion added to take those events and their impact on U.S. relations with the region into account.

CHAPTER 2

1. For a good description of early history of the region, see Michael P. Croissant, *The Armenia-Azerbaijan Conflict: Causes and Implications* (Westport, Conn.: Praeger, 1998), pp. 1–4.

2. Bruno Coppieters, " Conclusion: The Caucasus as a Security Complex," in Bruno Coppieters, ed., *Contested Borders in the Caucasus* (Brussels: VUB University Press, 1996), pp. 194–95.

3. Nodar Lomouri, *A History of Georgia* (Tbilisi: Sarangi Publishers, 1993), pp. 11–14.

4. Dmitri Trenin, "Russia's Security Interests and Policies in the Caucasus Region," in Coppieters, *Contested Borders in the Caucasus,* p. 91.

5. Lomouri, *History of Georgia,* p. 34.

6. Margot Light, "Russia and Transcaucasia," in John F. R. Wright, Suzanne Goldenberg, Richard Schofield, eds., *Transcaucasian Boundaries* (New York: St. Martin's Press, 1996), p. 39.

7. Toby Lester, "The New-Alphabet Disease," *Atlantic Weekly,* July 1997.

8. Light, "Russia and Transcaucasia," p. 39.

9. Some argue this began in 1948–53, when Azeris were forcibly expelled from Armenia. See Bakhitiyan Vahabzade and Suleiman Aliyarov, "From the Editor's Mail Box," *Azerbaijan* (Baku), no. 2, 1998; it appears in translation in Audrey L. Altstadt, "Spectrum," *Journal of Muslim Minority Affairs* (Institute of Muslim Minority Affairs, London) 9, no. 2 (July 1988): 433.

10. Kh. B. Yusifzade, "Oil and Gas Industry in Azerbaijan," paper presented at the First International Conference on the History of the Oil Industry in Azerbaijan, Baku, June 7, 1996, p. 53.

11. Natiq Aliyev, "The History of Oil in Azerbaijan," Azerbaijan International (Sherman Oaks, Calif.) 2, no. 2 (Spring 1994): 23.

CHAPTER 3

1. Julian Birch, "Patterns of Overlordship and Control in South Ossetia," in Wright, Goldenberg, and Schofield, *Transcaucasian Boundaries,* p. 157.

2. Ibid., p. 186.

3. Trenin, "Russia's Security Interests and Policies in the Caucasus Region," p. 95.

4. Croissant, *Armenia-Azerbaijan Conflict,* p. 86.

5. The Azeris argue that the interruption of trade, including supplies of natural gas through a pipeline system transiting Azerbaijan, is not a blockade but the natural consequence of the state of war existing between Armenia and Azerbaijan. While I was ambassador in Baku, Azeris would ask why this was different from the United States cutting off economic relations with Japan during World War II.

6. David W. Dunn and Daniel B. Isenhower, "Azerbaijan Begins Major Project that Affects Global Warming," *Azerbaijan International* 2, no. 3 (Summer 1994): 24.

7. Light, "Russia and Transcaucasia," pp. 52–53.

8. The original participating companies were BP, Amoco, SOCAR, Lukoil, Pennzoil, Unocal, Statoil, TPAO, Exxon, McDermott, Ramco, and DNKL.

9. Press briefing by a senior U.S. administration official on Caspian Sea diplomacy and the Baku-Ceyhan pipeline, Conrad International Hotel, Istanbul, November 17, 1999.

10. The sponsor group consists of SOCAR, BP, Delta Hess, Itochu, Devon, Statoil, TPAO, and Unocal. Notably absent among key AIOC members are Exxon/Mobil and Lukoil.

11. David Stern, "Caspian Oil Pipeline Moves Ahead," *Financial Times* on the web, May 17, 2001, available at http://news.ft.com/.

CHAPTER 4

1. Coppieters, "Conclusions: The Caucasus as a Security Complex," p. 202.

2. Croissant, *Armenia-Azerbaijan Conflict,* p. 77.

3. Ibid., pp. 57, 63–64.

4. Ambassador Yuri Urnov, Russian Ministry of Foreign Affairs, oral presentation at a seminar on Russian and Caspian energy prospects, Johns Hopkins University, Nitze School of Advanced International Studies, Washington, D.C., May 17, 2000.

5. "Ex-Soviet States Pledge Closer Ties than CIS," Reuters, September 6, 2000.

6. Trenin, "Russia's Security Interests and Policies in the Caucasus Region," p. 94. While both Iran and Turkey clearly took steps that would raise security concerns in Moscow about their intentions, the United States had not. Rather, Russian officials saw U.S. commercial engagement in the oil sector as being a security threat.

7. There are rumors that Alekperov might succeed Aliyev as Azerbaijani president. See R. Nadiroglu, "Will Vagit Alekperov Become the President of Azerbaijan?" *Baku Zerkkalo* (Internet version, in Russian), March 16, 2001, reprinted in Foreign Broadcast Information Service, FBIS, CEP20010318000026 (entry date, 03/18/2001).

8. For a summary of the issues involved, see Sara Carey and David Wack, "Overview of the Caspian Sea Legal Regime," *USACC Investment Guide to Azerbaijan,* U.S.-Azerbaijan Chamber of Commerce, Washington, 1999, pp. 75–78.

9. For an excellent description of the evolution in the Russian position on Caspian demarcation, see S. Cherniavskii, "Azerbaijan: The Caspian Sea Negotiations," *International Affairs* 47, no. 2 (2001): 129–38.

10. Michael Lelyveld, "Russia: Iran Disputes Legal Status of Caspian Sea Oil," Radio Free Europe/Radio Liberty, RFE/RL, August 9, 2000.

11. "Companies Lukoil, Yukos and Gazprom Found the Caspian Oil Company," press release, Lukoil, Moscow, July 25, 2000.

12. Dosym Satpaev, "Russia Homes in On Caspian Oil," Institute for War and Peace Reporting," September 4, 2000, available online at http://www.iwpr.net/index.plarchive/rca/rca_200009_18_2_eng.text.

13. "Caspian Oil Company Invited by Teheran to Explore Iranian Shelf," *Alexander's Gas & Oil Connections* 5, no. 15 (August 18, 2000), available online at http://www.gasandoil.com/goc/company/cnm03384.htm.

14. Terry Adams, "Caspian Hydrocarbons, the Politicisation of Regional Pipelines, and the Destabilisation of the Caucasus," *Caucasian Regional Studies* (Centre for European Policy

Studies, Brussels) 5, nos. 1 and 2 (August 30, 2000), available online at http://poli.vub.ac.be/publi/crs/eng/0501-00.htm.

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16. Andrei Piontkovsky, "Russia Lost the Chechen War," *Russia Today,* March 20, 2001, available online at http://www.russiatoday.com/news.php3?id=3140.

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1. Fred Halliday, "Condemned to React, Unable to Influence: Iran and Transcaucasia," in Wright, Goldenberg, and Schofield, *Transcaucasian Boundaries,* pp. 72–73.

2. Abdollah Ramezanzadeh, "Iran's Role as Mediator in the Nagorno-Karabakh Crisis," in Coppieters, *Contested Borders in the Caucasus,* p. 165.

3. Halliday, "Condemned to React, Unable to Influence," pp. 81–82.

4. Ramezanzadeh, "Iran's Role as Mediator in the Nagorno-Karabakh Crisis," p. 169.

5. Croissant, *Armenia-Azerbaijan Conflict,* p. 79.

6. Ibid., p. 83.

7. Caspian Reserves Assessed," *Financial Times,* September 19, 2000.

8. "Azerbaijan Envoy Rejects Iran's View on Caspian Split," *Mashhad Qods* (in Persian), August 13, 2000, reprinted in Foreign Broadcast Information Service, FBIS, IAP 20000830000083 (entry date 08/30/2000).

9. David Buchan, "French Group to Study Pipeline," *Financial Times* on the web, May 27, 2001, available at http://news.ft.com/.

10. BBC Monitoring Service, "Russia's Military Activity on the Caspian Threat to Azerbaijan, Chechens Say," *Financial Times* on the web, May 28, 2001, available at http://news.ft.com/.

11. Michael Lelyveld, "Caspian: Arms Race Fears Grow," Radio Free Europe/Radio Liberty, RFE/RL, June 5, 2001.

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13. Halliday, "Condemned to React, Unable to Influence," pp. 86–87.

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2. Ibid., p. 91.

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CHAPTER 7

1. Michael Dobbs, "Foreign Aid Shrinks, but Not for All," *Washington Post,* January 24, 2001, p. 1.

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