

CRS Issue Brief for Congress

Received through the CRS Web

Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

Updated September 9, 2003

Jim Nichol
Foreign Affairs, Defense, and Trade Division

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 09 SEP 2003		2. REPORT TYPE		3. DATES COVERED 00-00-2003 to 00-00-2003	
4. TITLE AND SUBTITLE Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service The Library of Congress,101 Independence Ave SE,Washington,DC,20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 19	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

Overview of U.S. Policy Concerns

- Post-9/11

- Operations in Iraq

Obstacles to Peace and Independence

- Regional Tensions and Conflicts

 - Nagorno Karabakh Conflict

 - Civil and Ethnic Conflict in Georgia

- Economic Conditions, Blockades and Stoppages

- Democratization Problems

 - Armenia

 - Azerbaijan

 - Georgia

The South Caucasus' External Security Context

- Russian Involvement in the Region

 - Military-Strategic Interests

 - Caspian Energy Resources

 - The Protection of Ethnic Russians and "Citizens"

- The Roles of Turkey, Iran, and Others

U.S. Aid Overview

U.S. Security Assistance

U.S. Trade and Investment

- Energy Resources and U.S. Policy

LEGISLATION

Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

SUMMARY

The United States recognized the independence of all the former Soviet republics by the end of 1991, including the South Caucasus states of Armenia, Azerbaijan, and Georgia. The United States has fostered these states' ties with the West, including membership in the Organization for Security and Cooperation in Europe and NATO's Partnership for Peace, in part to end the dependence of these states on Russia for trade, security, and other relations. The United States pursued close ties with Armenia to encourage its democratization and because of concerns by Armenian-Americans and others over its fate. Close ties with Georgia have evolved from U.S. contacts with former Soviet Foreign Minister Eduard Shevardnadze, Georgia's president for the last decade. Growing U.S. private investment in Azerbaijan's oil resources strengthened U.S. interests there. The United States has been active in diplomatic efforts to end conflicts in the region, many of which remain unresolved.

Faced with calls in Congress and elsewhere that the Administration develop policy for assisting the Eurasian states of the former Soviet Union, President George H.W. Bush proposed the FREEDOM Support Act in early 1992. Signed into law in 1992, P.L. 102-511 authorized funds for the Eurasian states for humanitarian needs, democratization, creation of market economies, trade and investment, and other purposes. Sec. 907 of the Act prohibited most U.S. government-to-government aid to Azerbaijan until it ceases blockades and other offensive use of force against Armenia. This provision was partly altered over the years to permit humanitarian aid and democratization aid, border security and customs

support to promote non-proliferation, Trade and Development Agency aid, Overseas Private Investment Corporation insurance, Eximbank financing, and Foreign Commercial Service activities. The current Bush Administration appealed for a national security waiver of the prohibition on aid to Azerbaijan, in consideration of Azerbaijan's assistance to the international coalition to combat terrorism. In December 2001, Congress approved foreign appropriations for FY2002 (P.L. 107-115) that granted the President authority to waive Sec. 907, renewable each year under certain conditions. President Bush exercised the waiver on Jan. 25, 2002 and Jan. 17, 2003.

In the South Caucasus, U.S. policy goals have been to buttress the stability and independence of the states through multilateral and bilateral conflict resolution efforts and to provide humanitarian relief. U.S. aid has also supported democratization, free market reforms, and U.S. trade. The Bush Administration supports U.S. private investment in Azerbaijan's energy sector as a means of increasing the diversity of world energy suppliers, and encourages building multiple energy pipeline routes to world markets. In the aftermath of the September 11, 2001 terrorist attacks on the United States, the South Caucasus states expressed support for U.S.-led operations in Afghanistan against al Qaeda and other terrorist groups. As an outgrowth of the U.S. anti-terrorism campaign in Afghanistan, the U.S. military in May 2002 began providing security equipment and training to help Georgia combat terrorist groups in its Pankisi Gorge area and elsewhere in the country.

MOST RECENT DEVELOPMENTS

Four Georgian troops of the 69 serving with U.S.-led coalition forces in Iraq were injured in a non-combat related incident and were flown to the United States for treatment in late August 2003.

Political dissidence has increased in the run-up to Azerbaijan's October 15, 2003, presidential election. On September 7, thousands of people marched in the capital of Baku in support of opposition Musavat Party candidate Isa Gumbar. This rally, approved by the government, was largely peaceful, but a televised political debate among presidential candidates the previous day deteriorated into a brawl, and police reportedly forcibly attacked representatives of the opposition Popular Front (Reform) party on September 8. The Central Electoral Commission, controlled by pro-government interests, has proposed that the state consider prosecuting two opposition candidates who criticized President Heydar Aliyev as corrupt, but refused to consider sanctions against pro-government candidate Hafiz Hacıyev, who accused Gumbar and other opposition candidates of spying for Armenia and Iran.

BACKGROUND AND ANALYSIS

Armenia, Azerbaijan, and Georgia are located south of the Caucasus Mountains that form part of Russia's borders (see map). The South Caucasus states served historically as a north-south and east-west trade and transport "land bridge" linking Europe to the Middle East and Asia, over which the Russian Empire and others at various times endeavored to gain control. In ancient as well as more recent times, oil and natural gas resources in Azerbaijan attracted outside interest. While Armenia and Georgia can point to past periods of autonomy or self-government, Azerbaijan was not independent before the 20th century. After the Russian Empire collapsed in 1917, all three states declared independence, but by early 1921 all had been re-conquered by Russia's Red (Communist) Army. They regained independence when the Soviet Union collapsed in 1991. (For background, see CRS Report RS20812, *Armenia Update*; CRS Report 97-522, *Azerbaijan*; and CRS Report 97-727, *Georgia*.)

The Caucasus States: Basic Facts

Area: The region is slightly larger than Syria: Armenia is 11,620 sq. mi.; Azerbaijan is 33,774 sq. mi.; Georgia is 26,872 sq. mi.

Population: 16.03 million, similar to Netherlands; Armenia: 3.0 m.; Azerbaijan: 8.1 m.; Georgia: 4.93 m. (*Economist Intelligence Unit*, 2002 est.)

GDP: \$11.7 billion; Armenia: \$2.3 b.; Azerbaijan: \$6.1 b.; Georgia: \$3.3 b. (EIU, 2002 est., current prices)

Overview of U.S. Policy Concerns

By the end of 1991, the United States had recognized the independence of all the former Soviet republics. The United States pursued close ties with Armenia, because of its profession of democratic principles, and concerns by Armenian-Americans and others over its fate. The United States pursued close ties with Georgia after Eduard Shevardnadze, formerly a pro-Western Soviet foreign minister, assumed power there in early 1992. Faced with calls in Congress and elsewhere for a U.S. aid policy for the Eurasian states, then-President George H.W. Bush sent the FREEDOM Support Act to Congress, which was signed with amendments into law in October 1992 (P.L. 102-511).

U.S. policy toward the South Caucasus states includes promoting the resolution of the Armenia-Azerbaijan conflict over Azerbaijan's breakaway Nagorno Karabakh (NK) region, the Georgia-Abkhaz conflict, and other regional conflicts. Successive U.S. Special Negotiators have served as co-chair of the Minsk Group of states mediating the NK conflict and taken part in the Friends of the U.N. Secretary General consultations and efforts of the Secretary General's special representative to settle the Abkhaz conflict. Congressional concerns about the NK conflict led to the inclusion of Sec. 907 in the FREEDOM Support Act, which prohibits U.S. government-to-government assistance to Azerbaijan, except for nonproliferation and disarmament activities, until the President determines that Azerbaijan has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK" (on waiver authority, see below). U.S. aid was at first limited to that supplied through international agencies and private nongovernmental organizations (NGOs), but provisions in FY1996, FY1998, and FY1999 legislation eased the prohibition by permitting the provision of humanitarian aid to the Azerbaijani government, support for democratization, Trade and Development Agency (TDA) guarantees and insurance for U.S. firms, Foreign Commercial Service (FCS) operations, aid to prevent the spread of weapons of mass destruction, Overseas Private Investment Corporation (OPIC) activities, and Export-Import Bank financing. Notwithstanding these exemptions, the State Department argued that Sec. 907 still restricted aid for anti-corruption and counter-narcotics programs, regional environmental programs, and programs such as good business practices, tax and investment law, and budgeting. The Defense Department argued that Sec. 907 restricted military assistance to Azerbaijan, including for anti-terrorism measures and energy pipeline security.

Some observers argue that developments in the South Caucasus region are largely marginal to global anti-terrorism and to U.S. interests in general. They urge great caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts. Earlier arguments against significant U.S. involvement – that the oil and other natural resources in the region were not commercially viable because of development and export costs and inadequate amounts, or would not be available to Western markets for many years – have lost much credibility (see below, *Energy Resources*). Other observers believe that U.S. policy now requires more active engagement in the South Caucasus. They urge greater U.S. aid and conflict resolution efforts to contain warfare, crime, smuggling, terrorism, and Islamic extremism and bolster independence of the states. Some argue that improved U.S. relations with these states also would serve to "contain" Russian and Iranian influence, and that improved U.S. ties with Azerbaijan would benefit U.S. relations with other Islamic countries, particularly Turkey and the Central Asian states. Many argue that the energy and resource-rich Caspian region is a central U.S. strategic interest, including because Azerbaijani and Central Asian oil and natural gas deliveries would lessen Western energy dependency on the Middle East. They also point to the prompt cooperation offered to the United States by Azerbaijan, Armenia, and Georgia in the aftermath of 9/11.

Post-9/11. In the wake of 9/11, U.S. policy priorities shifted toward global anti-terrorist efforts. In the South Caucasus, the United States obtained quick pledges from the three states to support Operation Enduring Freedom (OEF) in Afghanistan, including overflight rights and Azerbaijan's and Georgia's offers of airbase and other support. OEF was later expanded to Georgia (see below, *Security Assistance*). The State Department's *Patterns of Global Terrorism 2002* highlighted U.S. support for Azerbaijan's and Georgia's efforts to stop their territories from being used by international mujahidin and Chechen guerrillas to finance and supply Chechen and other Caucasian terrorism.

After 9/11, Congressional attitudes toward Azerbaijan and Sec. 907 also shifted. Permanent Presidential waiver authority was added to the Senate version of Foreign Operations Appropriations for FY2002 (H.R. 2506; P.L. 107-115) and retained by the conferees. The President may use the waiver authority if he certifies to the Appropriations Committees that U.S. aid supports U.S. counter-terrorism efforts, supports the operational readiness of the armed forces, is important for Azerbaijan's border security, and will not harm NK peace talks or be used for offensive purposes against Armenia. The waiver may be renewed annually, and sixty days after the exercise of the waiver authority, the President must send a report to Congress specifying the nature of aid to be provided to Azerbaijan, the status of the military balance between Armenia and Azerbaijan and the effects of U.S. aid on that balance, and the status of peace talks between Armenia and Azerbaijan and the effects of U.S. aid on those talks. Days after being signed into law, President Bush on January 25, 2002, exercised the waiver. Presidential Determination No. 2003-12, released January 17, 2003, extended the waiver another year.

Operations in Iraq. Azerbaijan and Georgia were among the countries that openly pledged to support U.S.-led Iraqi Freedom coalition actions – with both offering the use of their airbases – and to assist the United States in re-building Iraq. Both countries also agreed to participate – subject to U.S. financial support – in the stabilization force for Iraq. In early August 2003, Georgia dispatched 69 troops – 34 special operations personnel, 20 medics, and 15 engineers – to Iraq, and also is considering sending police. Azerbaijan's 150 troops were dispatched in mid-August. Before the U.S.-led operation in Iraq, Armenia raised concerns about the safety of 30,000 ethnic Armenians residing in Iraq, among some 200,000 residing in the Middle East, and about Turkish expansionism into Kurdish areas of Iraq. On July 17, 2003, the Senate Appropriations Committee (S.Rept.108-106) stated that it “regrets that Armenia was not more supportive of Operation Iraqi Freedom.”

Obstacles to Peace and Independence

Regional Tensions and Conflicts

Ethnic conflicts have kept the South Caucasus states from fully partaking in peace, stability, and economic development over a decade since the Soviet collapse, some observers lament. The countries are faced with on-going budgetary burdens of arms races and caring for refugees and displaced persons. Other costs of ethnic conflict include threats to bordering states of widening conflict and the limited ability of the region or outside states to fully exploit energy resources or trade/transport networks.

U.S. and international efforts to foster peace and the continued independence of the South Caucasus states face daunting challenges. The region has been the most unstable part of the former Soviet Union in terms of the numbers, intensity, and length of its ethnic and civil conflicts. The ruling nationalities in the three states are culturally rather insular and harbor various grievances against each other. This is particularly the case between Armenia and Azerbaijan, where discord has led to the virtually complete displacement of ethnic Armenians from Azerbaijan and vice versa. The main languages in the three states are mutually unintelligible (also, those who generally consider themselves Georgians – Kartvelians, Mingrelians, and Svans – speak mutually unintelligible languages). Few of the region's borders coincide with ethnic populations. Attempts by territorially-based ethnic

minorities to secede are primary security concerns in Georgia and Azerbaijan. Armenia and Azerbaijan view NK's status as a major security concern. The three major secessionist areas — NK, Abkhazia, and South Ossetia — have failed to gain international recognition, and receive major economic sustenance from, respectively, Armenia, Russia, and Russia's North Ossetia region. Also, Georgia's Ajaria region receives backing from Russia for its autarchic stance toward the Shevardnadze government.

Nagorno Karabakh Conflict. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in 15,000 deaths, about 1 million Azerbaijani refugees and displaced persons, and about 300,000 Armenian refugees. Azerbaijan claims that about 20% of its territory, including NK, is controlled by NK Armenian forces. Various mediators have included Russia, Kazakhstan, Iran, the United Nations, and the Organization for Security and Cooperation in Europe (OSCE). The OSCE's "Minsk Group" of concerned member-states began talks in 1992. A U.S. presidential envoy was appointed to these talks. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). Moscow talks were held by the sides, with token OSCE representation, along with Minsk Group talks. The OSCE at its December 1994 Budapest meeting agreed to send OSCE peacekeepers to the region under U.N. aegis if a political settlement could be reached. Russia and the OSCE merged their mediation efforts. The United States, France, and Russia co-chair meetings of the Minsk Group.

A new round of peace talks opened in Moscow in 1997. The presidents of Azerbaijan and Armenia recognized a step-by-step peace proposal as a basis for further discussion, leading to protests in both countries and to the forced resignation of President Levon Ter-Petrosyan. Azerbaijan rejected a new Minsk Group proposal in late 1998 embracing elements of a comprehensive settlement, citing vagueness on the question of NK's proposed "common state" status. The assassinations of Armenian political leaders in late 1999 set back the peace process. In 2001, presidential meetings included one in Key West, Florida, in April, where they reportedly discussed (via emissaries) elements of a peace plan first broached in 1999 that included territorial concessions and the establishment of land corridors. The presidents later met separately with President Bush, highlighting early Administration interest in a settlement. In the aftermath of 9/11, the U.S. Special Negotiator for Eurasian Conflicts and Minsk Group co-chair, Rudolf Perina, has stressed that worldwide anti-terrorism efforts increase the importance of resolving regional conflicts. Presidential meetings in 2002 were inconclusive. In January 2003, Armenian President Robert Kocharyan proclaimed that Armenia's policy on the settlement of the NK conflict rested on three pillars: a "horizontal" — instead of hierarchical — relationship between NK and Azerbaijan; a secure land corridor between Armenia and NK; and security guarantees for NK's populace. Armenian Foreign Minister Vardan Oskanyan stated on July 29, 2003, that he would step up diplomatic cooperation with NK to get the world to recognize it as an independent state. (See also CRS Issue Brief IB92109, *Armenia-Azerbaijan Conflict*.)

Civil and Ethnic Conflict in Georgia. Several of Georgia's ethnic minorities stepped up their dissident actions, including separatism, in the late 1980s and early 1990s, resulting in the loss of central government control over the regions of South Ossetia and Abkhazia. South Ossetia in 1989 lobbied for joining its territory with North Ossetia in Russia or for independence. Repressive efforts by former Georgian President Gamsakhurdia triggered conflict in 1990, reportedly leading to about 1,500 deaths. In June 1992, former

Russian President Yeltsin brokered a cease-fire, and a predominantly Russian military “peacekeeping” force has been stationed in South Ossetia (currently numbering about 530). A coordinating commission composed of OSCE, Russian, Georgian, and North and South Ossetian emissaries was formed to promote a settlement of the Georgian-Ossetian conflict. Relations with Georgia deteriorated following a contentious “presidential” election in South Ossetia in late 2001, won by Russian citizen and resident of St. Petersburg Eduard Kokoyev (Kokoiti), who had run on a platform of “associating” the region with Russia. During 2003, there has been little progress in reaching a peace settlement.

Abkhazia. In late 2001, the Abkhaz conflict heated up after remaining dormant for several years. The regional legislature declared Abkhazia’s effective independence from Georgia in July 1992, prompting Georgian national guardsmen to attack Abkhazia. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a Eurasian state, termed UNOMIG, to help the parties reach a settlement. UNOMIG’s mandate has been continuously extended and consisted of 114 observers in May 2003 (including a few U.S. troops). In September 1993, Russian and North Caucasian “volunteer” troops that reportedly made up the bulk of Abkhaz separatist forces broke a cease-fire and quickly routed Georgian forces. U.N.-sponsored Abkhaz-Georgian talks, with the participation of Russia and the OSCE, led to a cease-fire, and in April 1994 the two sides agreed to a framework for a political settlement and the return of refugees. A Quadripartite Commission was set up to discuss repatriation, composed of Abkhaz and Georgian representatives and emissaries from Russia and UNHCR. A May 1994 accord provided for Russian troops (acting as CIS “peacekeepers”) to be deployed in a security zone along the Inguri River that divides Abkhazia from the rest of Georgia. *The Military Balance 2002-2003* estimates that about 1,600 Russian “peacekeepers” are deployed. The conflict resulted in about 10,000 deaths and over 200,000 displaced persons, mostly ethnic Georgians.

U.S. Special Negotiator Perina works with the U.N. Secretary General, his Special Representative, and other Friends of Georgia (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a peace settlement. The UNSC agreed that cooperation with the Russian forces was a reflection of trust placed in Russia. Under various agreements, the Russian “peacekeepers” are to respond to UNOMIG reports of cease-fire violations, carry out demining, and provide protection for UNOMIG’s unarmed observers. In late 1997, the sides agreed to set up a Coordinating Council to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. Coordinating Council talks and those of the Quadripartite Commission have been supplemented by direct discussions between Abkhaz and Georgian representatives. Sticking points between the two sides have included Georgia’s demand that displaced persons be allowed to return to Abkhazia, after which an agreement on broad autonomy for Abkhazia may be negotiated. The Abkhazians have insisted upon recognition of their effective independence as a precondition to large-scale repatriation. Since January 2002, Abkhaz authorities have refused to consider a draft negotiating document prepared by the U.N. and the Friends of Georgia.

Deputy Assistant Secretary of State Lynn Pascoe in Congressional testimony on September 24, 2002, stated that Russia was stalling on negotiations on a political settlement of the Abkhaz conflict. Perhaps addressing this criticism, Putin, Shevardnadze, and an Abkhaz emissary met in Sochi on March 6-7, 2003, and the three sides agreed to set up working groups to facilitate simultaneously opening a rail line through Abkhazia to Tbilisi and repatriating Georgians to Abkhazia’s Gali area. Georgia agreed to an indefinite

extension of the mandate to the Russian peacekeepers, to participate in a proposed economic zone led by Russia, and to a Russian role in modernizing the Inguri hydroelectric station. The sides continue to wrangle over implementing the Sochi accords.

Shevardnadze reported in March 2003 that President Bush pledged in a letter that the Administration would pay more attention to the conflict in Georgia's breakaway Abkhazia region after it dealt with Iraq. In June 2003, Shevardnadze reportedly sent a letter to President Bush reminding him of the pledge, and U.S. State Department and National Security Council officials, and former Secretary James Baker, visited Georgia July 5-6 to discuss Abkhazia, terrorism, and electoral reforms (see also below, *Democratization*).

Economic Conditions, Blockades and Stoppages

The economies of all three South Caucasus states greatly declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remain fragile. Investment in oil and gas resources and delivery systems has fueled economic growth in Azerbaijan in recent years. Armenia's GDP was about \$550 per capita, Azerbaijan's was about \$700, and Georgia's was about \$1,000 (*Economist Intelligence Unit*, 2001 estimates, current dollars). Widespread poverty and regional conflict have contributed to high emigration from all three states.

Transport and communications obstructions and stoppages have severely affected economic development in the South Caucasus and stymied the region's emergence as an East-West and North-South corridor. Since 1989, Azerbaijan has obstructed railways and pipelines traversing its territory to Armenia, and for a time successfully blockaded NK. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports. Turkey has barred U.S. shipments of aid through its territory to Armenia since March 1993. P.L. 104-107 and P.L. 104-208 mandated a U.S. aid cutoff (with a presidential waiver) to any country which restricts the transport or delivery of U.S. humanitarian aid to a third country, aimed at convincing Turkey to allow the transit to U.S. aid to Armenia. According to the U.S. Embassy in Baku, Azerbaijan's poverty-stricken Nakhichevan exclave "is blockaded by neighboring Armenia," severing its "rail, road, or energy links to the rest of Azerbaijan." Iran has at times obstructed bypass routes to Nakhichevan. Georgia has cut off natural gas supplies to South Ossetia, and Russia has at times cut off gas supplies to Georgia. In 1996, the CIS supported Georgia in imposing an economic embargo on Abkhazia, but in 1999 Russia lifted most trade restrictions. Indicating the complicated politics surrounding regional transport, Aliyev alleged that, during an August 2002 meeting with Kocharyan, his conditional offer to reopen a railway transiting the two countries was rejected by Kocharyan. The Armenian presidential press secretary responded that an unconditional reopening could be a confidence-building measure, but that it should be part of a comprehensive "package" settlement of the NK conflict.

Democratization Problems

The organization *Freedom House* considers Armenia and Georgia as somewhat more democratic than Azerbaijan, but views all three states as only "partly free" and as making scant democratization progress. During 2003, all three are conducting presidential and/or

legislative elections. Armenia held such elections in March and May 2003, respectively. Azerbaijan will hold presidential elections on October 15, 2003. Georgia will hold legislative elections on November 2, 2003, and Shevardnadze has declared that he will not run for re-election in 2005, opening a competition for presidential succession in that country.

Armenia. Armenia appeared somewhat stable until 1998, when then-President Levon Ter-Petrosyan was forced to resign after prominent officials opposed his endorsement of NK peace proposals suggested by the OSCE. Former Prime Minister Robert Kocharyan won a 1998 presidential election termed flawed by the U.S. State Department. Nonetheless, this peaceful transfer of power is one of the few so far among the Eurasian states. Armenia's 1999 legislative election was viewed as improved but still falling short of OSCE standards. Illustrating ongoing challenges to stability, in October 1999, gunmen entered the legislature and opened fire on deputies and officials, killing Prime Minister Vazgen Sarkisyan, Speaker Karen Demirchyan, and six others. The killings may have been the product of personal and clan grievances. Abiding by the constitution, the legislature met and appointed Armen Khachatryan as speaker (a member of the ruling Unity bloc), and Kocharyan named Sarkisyan's brother the new prime minister. Political infighting intensified until mid-2000, when Kocharyan appointed former Soviet dissident Andranik Margaryan the new prime minister. In late 2002, Margaryan announced that the Republican Party, which he heads, would fully back Kocharyan in presidential elections scheduled for February 19, 2003. None of the nine candidates on the ballot received a required 50% plus one of the vote, forcing a run-off on March 5 by the top two candidates, Kocharyan and People's Party head Stepan Demirchyan (Karen's son). OSCE and PACE observers termed the campaign vigorous and largely peaceful, but concluded that the election did not meet international standards for a free and fair race, because of "widespread" ballot box stuffing, a lack of transparency in vote-counting, and other "serious" irregularities.

On May 26, 2003, the Armenian Central Electoral Commission issued preliminary results for the legislative election and a constitutional referendum held the previous day. In the party list section of the voting (75 of 131 deputies are elected by party lists), six out of 21 parties running passed a 5% hurdle and won seats. Margaryan's Republican Party won about 25% of the votes, the opposition Justice bloc won 14% (led by Stepan Demirchyan), the pro-government Land of Laws Party won 12%, pro-government Dashnaksutun won 10%, the opposition National Unity Movement won 10%, and the pro-government United Labor Party won 5%. Many seats in individual constituency races were won by party independents. The OSCE said that the election was "less flawed than the recent presidential poll, but still fell short of international standards." Proposed constitutional changes failed to be approved by the voters, allegedly in part because of a poor government effort to inform the public about the proposed changes. (See also CRS Report RS20812, *Armenia Update*.)

Azerbaijan. Azerbaijan has had three presidents and other acting heads of state since independence, and has suffered several coups or attempted coups. A constitutional referendum in 1995 granted Azerbaijani President Heydar Aliyev sweeping powers. He has concentrated power in his office, arrested many of his opponents, and taken other measures to keep the opposition weak. The 1995 legislative and 1998 presidential elections were marred by irregularities, according to international observers. In late June 2000, the Parliamentary Assembly of the Council of Europe (PACE) approved Azerbaijan's membership, conditioned on its compliance with commitments, including holding a free and fair legislative election. OSCE and PACE observers to the November 2000 legislative

election judged it “seriously flawed,” though they said it showed some progress compared to previous elections. U.S. Helsinki Commission observers saw virtually no progress. Although international observers also judged January 2001 legislative run-off elections as seriously flawed, PACE admitted both Azerbaijan and Armenia as members later in the month. U.S. State Department Spokesman Richard Boucher stated in August 2002 that widespread irregularities appeared to have taken place during a just-held constitutional referendum, and concluded that it “did very little to advance democratization.” Several of the constitutional changes had been encouraged by the Council of Europe, such as the creation of a executive-level human rights ombudsman. Some opposition party leaders, however, objected to the elimination of party list voting in legislative elections, which may sharply reduce the number of seats won by opposition parties, and the designation of the prime minister as the next in line in the case of presidential incapacity, death, or resignation, which oppositionists feared could streamline Ilkham’s positioning as successor.

President Aliyev suffered serious cardiac problems in April 2003 and has been hospitalized for most of the time since then. He was flown from a Turkish hospital to one in Cleveland, Ohio, in early August 2003, creating heightening popular speculation in Azerbaijan about an imminent political succession. In what some critics termed an apparent effort to keep the Aliyev dynasty in power, his son Ilkham in July proffered his candidacy for an upcoming presidential election scheduled for October 15, 2003, demurring that he was running only to buttress his father’s candidacy. On August 4, the legislature hurriedly convened to confirm Ilkham as prime minister, a post permitting him to rule as interim head of state in case his father resigned or died. Two days later, however, he took a “leave of absence,” and the former prime minister was assigned to carry out official duties of the office, since it was discovered that the electoral law forbade civil servants from running for office. On July 21, 2003, the U.S. State Department raised concerns about the denial of candidate registrations, harassment of opposition parties, and use of violence against political protesters, but on August 4, it endorsed Ilkham’s appointment as prime minister as constitutionally legitimate. Despite the “leave of absence,” Ilkham seems to be carrying out many official duties as prime minister.

Georgia. Georgia experienced political instability during the early 1990s, a fragile stability in the second half of the decade, and seemingly increased instability in recent years linked to President Eduard Shevardnadze’s stated intention not to seek another term in 2005. Over the years, Shevardnadze has survived several coup attempts and has prevailed over political rivals both within and outside of his Citizens’ Union Party (CUG). According to some critics, U.S. policy has relied too heavily on personal ties with Shevardnadze (and with Aliyev in Azerbaijan), and his replacement could bring instability and setbacks to U.S. interests. The OSCE reported that legislative races in October-November 1999 in Georgia appeared mostly fair, but did not fully comply with OSCE standards. Shevardnadze received 80% of 1.87 million votes cast in an April 2000 presidential race that the OSCE concluded did not meet democratic standards. Shevardnadze’s appointment of State Secretary Avtandil Dzhorbenadze at the end of June 2002 to head the CUG was viewed by many Georgians as an attempt to designate an heir. According to some reports, U.S. aid to set up a Georgian National Security office has reflected in part U.S. concerns that Shevardnadze’s succession proceed smoothly. Legislative elections are scheduled for November 2, 2003. Observers have raised concerns about reports that some political parties are forming militias and about the possibility of criminal syndicates infiltrating the vote. President Bush tasked former U.S. Secretary of State James Baker as his personal emissary to Georgia in early July 2003 to

break a political deadlock over the composition of electoral commissions in the run-up to the November elections. The Georgian government and major political parties seemed at first to agree to the “Baker plan,” but the legislature still had not adopted it by early August.

The South Caucasus’ External Security Context

Russian Involvement in the Region

Russia has appeared to place great strategic importance on maintaining influence in the South Caucasus region. Russia has exercised most of its influence in the military-strategic sphere, less in the economic sphere, and a minimum in the domestic political sphere, except for obtaining assurances on the treatment of ethnic Russians. Russia has viewed Islamic fundamentalism as a potential threat to the region, but has cooperated with Iran on some issues to counter Turkish and U.S. influence. Russia has tried to stop ethnic “undesirables,” drugs, weapons, and other contraband from entering its borders, and to contain the contagion effects of separatist ideologies in the North and South Caucasus. These concerns, Russia avers, has led it to maintain military bases in Armenia and Georgia. The states have responded in various ways to Russian overtures. Armenia has close security and economic ties with Russia, given its unresolved NK conflict and grievances against Turkey. Russia’s security actions against its breakaway Chechnya region, its military bases in Georgia, and support to Abkhaz and South Ossetian separatists draw Georgia’s ire. Azerbaijan has been concerned about Russia’s ties with Armenia.

Military-Strategic Interests. Russia’s armed presence in the South Caucasus is multi-faceted, including military base personnel, “peacekeepers,” and border troops. The first step by Russia in maintaining a military presence in the region was the signing of the Commonwealth of Independent States (CIS) Collective Security Treaty (CST) by Armenia, Russia, and others in 1992, which calls for mutual defense consultations (Azerbaijan and Georgia withdrew from the CST in 1999). Russia also secured permission for two military bases in Armenia and four in Georgia. Russian forces help guard the Armenian-Turkish border. The total number of Russian troops has been estimated at about 2,900 in Armenia and 4,000 in Georgia. Another 100,000 Russian troops are stationed nearby in the North Caucasus (*The Military Balance 2002-2003*). In 1993, Azerbaijan was the first Eurasian state to get Russian troops to withdraw, except at the Gabala radar site in northern Azerbaijan. (Giving up on closing the site, in January 2002 Azerbaijan signed a 10-year lease agreement with Russia to permit up to 1,500 personnel at the site.) By October 1999, most of the Russian border troops had left Georgia, except for some liaison officers. Armenia has argued that its Russian bases provide for regional stability by protecting it from attack. Russia has said that it has supplied weapons to Armenia, including S-300 missiles and Mig-29 fighters for air defense, to enhance Armenia’s and NK’s security. Azerbaijan and Georgia have raised concerns about the spillover effects of Russia’s military operations in Chechnya. In December 1999, the OSCE agreed to Georgia’s request to send observers (currently 144 in summer and 111 in winter) to monitor its border with Chechnya (later this monitoring was expanded to nearby border areas).

Since the September 11, 2001 terrorist attacks in the United States, Russia has stepped up its claims that Georgia harbors Chechen terrorists with links to bin Laden, who use Georgia as a staging ground for attacks into Chechnya. Georgia, which borders Chechnya,

has accepted thousands of Chechen refugees, mainly because many Chechens, termed Kists, live in Georgia's Pankisi Gorge area. Some Russian officials initially condemned U.S. plans, announced in early 2002, to provide military training and equipment to Georgia to help it deal with terrorism in the Pankisi Gorge and elsewhere. The United States has expressed "unequivocal opposition" to military intervention by Russia inside Georgia. Georgia launched a policing effort in the Gorge and agreed with Russia to some coordinated border patrols in October 2002 that have appeared to reduce tensions over this issue (for details, see CRS Report RS21319, *Georgia's Pankisi Gorge*).

Russia's Bases in Georgia. In 1999 Russia agreed to provisions of the adapted Conventional Armed Forces in Europe (CFE) Treaty calling for it to reduce weaponry at its four bases in Georgia, to close two of the bases (at Gudauta and Vaziani) by July 2001, and to discuss closing the other two bases (at Batumi and Akhalkalaki). The Treaty remains unratified by NATO signatories until Russia satisfies these and other conditions. Russia moved some weaponry from the bases in Georgia to bases in Armenia, raising objections from Azerbaijan. On July 1, 2001, Georgia reported that Russia had turned over the Vaziani base. Russia reported in June 2002 that it had closed its Gudauta base, but announced that 320 troops would remain to guard facilities and support Russian "peacekeepers" taking leave at the base. Russia has stated that it needs \$300 million and eleven years to close the other two bases. At its December 2002 ministerial meeting, the OSCE hailed the Gudauta closure over Georgia's objections that the base was not under Georgia's control, and appeared unwilling to press Russia on terminating the other bases. Pascoe testified in September 2002 that Russia is temporizing on implementing these CFE commitments.

Caspian Energy Resources. Russia has tried to play a significant role in future oil production, processing, and transportation in the Caspian Sea region. In an effort to increase influence over energy development, Russia's policymakers during much of the 1990s insisted that the legal status of the Caspian Sea be determined before resources could be exploited. Russia has changed its stance by agreeing on seabed delineation with Kazakhstan and Azerbaijan, prompting objections from Iran and Turkmenistan. Before 9/11, Putin criticized Western private investment in energy development in the Caspian region, and appointed a special energy emissary to lobby the region to increase its energy ties with Russia. After 9/11, however, he appeared to ease his criticism of a growing U.S. presence. At the May 2002 U.S.-Russia summit, the two presidents issued a joint statement endorsing multiple pipeline routes, implying Russia's non-opposition to plans to build the Baku-Tbilisi-Ceyhan (BTC) oil and gas pipelines. Nonetheless, in September 2002, Foreign Minister Ivanov resurrected opposition to the BTC pipeline, stating during a U.S. visit that "we will not put up with the attempts to crowd Russia out."

The Protection of Ethnic Russians and "Citizens". As a percentage of the population, there are fewer ethnic Russians in the South Caucasus states than in most other Eurasian states. According to the *CIA World Factbook*, ethnic Russians constituted about 3.6% of the region's population in 2002. Russia has voiced concerns about the safety of ethnic Russians in Azerbaijan and Georgia. A related Russian interest has involved former Soviet citizens who want to claim Russian citizenship or protection. In June 2002, a new Russian citizenship law permitted granting citizenship and passports to most Abkhazians and South Ossetians, heightening Georgian fears that Russia has *de facto* annexed the regions. Kokoyev reported in April 2003 that the vast majority of South Ossetians had been granted Russian citizenship. Many observers argue that the issue of protecting the human rights of

ethnic Russians and pro-Russian groups is a stalking horse for Russia's military-strategic and economic interests. Some observers have raised concerns that Russia also is using fellow-travelers and agents in place in the South Caucasus states to further its interests.

The Roles of Turkey, Iran, and Others

The United States has generally viewed Turkey as able to foster pro-Western policies and discourage Iranian interference in the South Caucasus states, though favoring Azerbaijan in the NK conflict. Critics of Turkey's larger role in the region caution that the United States and NATO might be drawn by their ties with Turkey into regional imbroglios. Turkey seeks good relations with Azerbaijan and Georgia and some contacts with Armenia, while trying to limit Russian and Iranian influence. Azerbaijan likewise views Turkey as a major ally against such influence, and to balance Armenia's ties with Russia. Armenia is a member of the Black Sea Economic Cooperation zone, initiated by Turkey, and the two states have established consular relations. Obstacles to better Armenian-Turkish relations include Turkey's rejection of Armenians' claims of genocide in 1915-1923 and its support for Azerbaijan in the NK conflict, including the border closing. Georgia has an abiding interest in ties with the approximately one million Georgians residing in Turkey and the approximately 50,000 residing in Iran, and has signed friendship treaties with both states. Turkey and Russia are Georgia's primary trade partners. Consistent with the U.S. focus on the global anti-terror campaign, Turkey, Azerbaijan, and Georgia reached a tripartite security cooperation accord in January 2002 on combating terrorism and international crime and protecting pipelines. Turkey has hoped to benefit from the construction of new pipelines delivering oil and gas westward from the Caspian Sea.

Iran's goals in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence (Iran's goal of containing Russia conflicts with its cooperation with Russia on these interests), ending regional instability that might threaten its own territorial integrity, and building economic links. A major share of the world's Azerbaijanis reside in Iran (estimates range from 6-12 million), which also hosts about 200,000 Armenians. Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered by limiting trans-Azerbaijani contacts. Azerbaijani elites fear Iranian-supported Islamic extremism and object to Iranian support to Armenia. Iran has growing trade ties with Armenia and Georgia, but its trade with Azerbaijan has declined. To block the West and Azerbaijan from developing Caspian Sea energy, Iran long has insisted on either common control by the littoral states or the division of the seabed into five equal sectors. Iranian warships have challenged Azerbaijani oil exploration vessels. U.S. policy aims at containing Iran's threats to U.S. interests (See CRS Issue Brief IB93033, *Iran*). Some critics argue that if the South Caucasus states are discouraged from dealing with Iran, particularly in building pipelines through Iran, they face greater pressure to accommodate Russian interests. (See also below, *Energy*.)

Among non-bordering states, the United States and European states are the most influential in the South Caucasus in terms of aid, trade, exchanges, and other ties. U.S. and European goals in the region are broadly compatible, involving integrating it into the West and preventing an anti-Western orientation, opening it to trade and transport, obtaining energy resources, and helping it become peaceful, stable, and democratic. The South Caucasus region has developed some economic and political ties with other Black Sea and Caspian Sea littoral states, besides those discussed above, particularly with Ukraine,

Romania, and Kazakhstan. Azerbaijan shares with Central Asian states common linguistic and religious ties and concerns about some common bordering powers (Iran and Russia). The South Caucasian and Central Asian states have common concerns about ongoing terrorist threats and drug trafficking from Afghanistan. Central Asia's increasing energy and other trade with the South Caucasus will make it more dependent on stability in the region.

U.S. Aid Overview

The United States is the largest bilateral aid donor by far to Armenia and Georgia, and the two states are among the four Eurasian states that each have received more than \$1 billion in U.S. aid FY1992-FY2002 (the others are Russia and Ukraine). See Table 1. By comparison, aid from the European Union to the region has totaled about \$1 billion over the past decade. U.S. assistance has included FREEDOM Support Act programs, food aid (U.S. Department of Agriculture), Peace Corps, and security assistance. Armenia and Georgia have regularly ranked among the top world states in terms of per capita U.S. aid, indicating the high level of concern within the Administration and Congress. Foreign Operations Appropriations for FY1998 (P.L. 105-118) created a new South Caucasian funding category to emphasize regional peace and development. Georgia has been suggested as a recipient of enhanced U.S. development aid under the proposed Millennium Challenge Account. On the other hand, in June 2003, the State Department listed Georgia among states inadequately addressing the problem of human trafficking, possibly making it a target of U.S. aid sanctions if it fails to reform over the next year. Besides bilateral aid, the United States contributes to multilateral organizations such as the International Monetary Fund and the World Bank that aid the region. (See also CRS Issue Brief IB95077, *The Former Soviet Union and U.S. Foreign Assistance*.)

In the 108th Congress, Omnibus Appropriations for FY2003 (H.J.Res. 2; P.L. 108-7, signed into law on February 20, 2003) provides \$760 million in FREEDOM Support Act assistance for the Independent States of the Former Soviet Union. The law reaffirms the South Caucasus spending category, and permits funds "notwithstanding any other provisions of law" to be used for confidence-building and other efforts to foster the settlement of regional conflicts, especially those involving NK and Abkhazia. It earmarks not less than \$90 million for Armenia. It provides the usual exemptions to Sec. 907 (see above) in case the presidential waiver is not exercised. The Conferees (H.Rept. 108-10) recommended continued funding for study of a proposed synchrotron project in Armenia. The Conferees stated that, unlike prior years, aid was not earmarked for Georgia, but they "continue to support [its] sovereignty and territorial integrity." They called on Georgia to uphold human rights and the rule of law by protecting religious minorities against mob violence. They commended the conclusion of USAID that the establishment of a wastewater management program for Georgia should be deferred (to focus on energy supply needs) and called on the State Department and Azerbaijani authorities to continue to investigate the death of a U.S. democracy worker in Azerbaijan.

U.S. Security Assistance

The United States has provided some security assistance to the region, and bolstered such aid after 9/11, though overall aid amounts to the countries did not increase post-9/11 as they did in regard to the Central Asian "front line" states. See Table 1. In Georgia,

Congress in 1997 directed setting up a Border Security and Related Law Enforcement Assistance Program, and some of this aid has been used by Georgia to fortify its northern borders with Russia and Chechnya. The United States has committed millions of dollars to facilitate the closure of Russian military bases in Georgia. Congress initiated the Security Assistance Act of 2000 (P.L. 106-280) that authorized nonproliferation, export control, border, anti-terrorism, and other security aid for the South Caucasus states and earmarking such aid for Georgia. In 1997, a U.S.-Azerbaijan Bilateral Security Dialogue was inaugurated to discuss terrorism, drug trafficking, international crime, and the proliferation of weapons of mass destruction (WMD). The United States has signed many other accords with the regional states on military cooperation, combating WMD proliferation, and securing nuclear materials. In February 2003, the United States announced that it would fully fund stepped-up Georgian border guard deployments along Georgia's border with Russia's Dagestan region (bordering Chechnya), and it has provided some personnel for an expanded OSCE observer presence along this border. Azerbaijan in November 2002 deployed 30 troops to assist the U.S.-led coalition in Afghanistan.

The Azerbaijani and Georgian presidents have stated that they want their countries to join NATO; much greater progress in military reform, however, will likely be required before they are considered for membership. All three states joined NATO's Partnership for Peace (PFP). Armenian, Azerbaijani, and Georgian troops serve as peacekeepers in NATO-led operation in Kosovo. "Cooperative Best Effort 2003" PFP exercises took place in June 2003 in Armenia, involving about 400 troops from 19 countries, including troops from Turkey and Russian troops based in Armenia. PFP exercises involving some 700 U.S., Georgian, German, Estonian, Bulgarian, Turkish, Ukrainian, Moldovan, and Albanian troops were held in Georgia in September 2003. A separate exercise was held at the same time by Russia and Armenia in an area bordering Georgia.

Until waived, Sec. 907 had prohibited much U.S. security aid to Azerbaijan (including Foreign Military Financing or FMF, and International Military Education & Training or IMET), and by U.S. policy similar aid had not been provided to Azerbaijan's fellow combatant Armenia (both countries were on the Munitions List of countries ineligible for U.S. arms transfers). The calendar year 2002 waiver of Sec. 907 (followed by the April 2002 Presidential Determination 2002-15, making Armenia, Azerbaijan, and Tajikistan eligible to receive FMF in order to "strengthen the security of the United States") permitted the provision of \$4.075 million in IMET and FMF aid to Armenia and \$4.377 million to Azerbaijan in FY2002. The waiver enabled both Armenia and Azerbaijan to participate in yearly "Best Effort" PFP exercises. calendar year 2003 waiver permitted additional IMET and FMF aid for both Armenia (\$3.7 million) and Azerbaijan (\$5.75 million).

A \$64 million Georgia Train and Equip Program (GTEP) began in May 2002 that U.S. officials explained would help Georgian military, security, and border forces to combat Chechen, Arab, Afghani, al Qaeda, and other terrorists who allegedly had infiltrated Georgia. Some of these terrorists had allegedly fled U.S.-led coalition operations in Afghanistan, so the GTEP was initially linked to the Afghan campaign. Other reported U.S. aims include bolstering Georgia's ability to guard its energy pipelines and ensuring internal stability. Some refurbishment of Georgian military facilities also was carried out, but U.S. officials say there are no plans to establish a permanent U.S. military presence in Georgia. U.S. Secretary of Defense Donald Rumsfeld and the chairman of the Joint Chiefs of Staff, Gen. Richard Myers, visited Georgia in November 2002 and reviewed the GTEP, with Myers

declaring that “the U.S. and Georgian relationship is a very rare, important one [and] it’s been strengthening over the years.” The leader of Georgia’s breakaway Abkhaz region, Vladislav Ardzinba, has rejected reports that Abkhazia might host terrorists, warned that U.S. military training could increase Georgia’s revanchism and regional instability, and praised Russia as a bulwark against such instability. Reports that al Qaeda and other terrorists may be currently in Abkhazia (and elsewhere in Georgia) create dilemmas for a U.S. policy that holds governments responsible for terrorists operating on their territories. (For details, see CRS Report RS21319, *Georgia’s Pankisi Gorge*.)

U.S. Trade and Investment

The Bush Administration and others maintain that U.S. support for privatization and the creation of free markets directly serve U.S. national interests by opening new markets for U.S. goods and services, and sources of energy and minerals. Among U.S. economic links with the region, bilateral trade agreements providing for normal trade relations for products have been signed and entered into force with all three states. Bilateral investment treaties providing national treatment guarantees have entered into force. U.S. investment is highest in Azerbaijan’s energy sector, but rampant corruption in Azerbaijan and Georgia otherwise has stifled investment. The EIU attributes paltry U.S. and other foreign investment in Armenia to business concerns about inadequate law enforcement. With U.S. support, in June 2000 Georgia became the second Eurasian state (after Kyrgyzstan) to be admitted to the WTO. P.L. 106-476, signed into law on November 9, 2000, stated that the President may determine that Title IV should no longer apply to Georgia and proclaim that its products will receive permanent nondiscriminatory (normal trade relations - NTR) treatment. Citing “due regard for the findings of the Congress,” President Clinton on December 29, 2000, determined and proclaimed such permanent normal trade relations. Armenia was admitted into WTO in December 2002, but until U.S. legislation is passed, it will continue to receive conditional NTR treatment subject to a presidential determination, as does Azerbaijan (see also CRS Report RL31558, *Normal-Trade-Relations*).

Energy Resources and U.S. Policy

The U.S. Energy Department reports estimates of 1.2 billion barrels of proven oil reserves, and estimates of 4.4 trillion cubic feet of proven natural gas reserves in Azerbaijan (*Country Analysis Brief*, June 2002). Many problems remain to be resolved before Azerbaijan can fully exploit and market its energy resources, including political instability, ethnic and regional conflict, and the security and construction of pipeline routes.

U.S. policy goals regarding energy resources in the Central Asian and South Caucasian states have included supporting their sovereignty and ties to the West, supporting U.S. private investment, breaking Russia’s monopoly over oil and gas transport routes by encouraging the building of pipelines that do not traverse Russia, promoting Western energy security through diversified suppliers, assisting ally Turkey, and opposing the building of pipelines that transit Iran. These goals are reflected in the Administration’s May 2001 *National Energy Policy* report. It recommends that the President direct U.S. agencies to support building the BTC oil pipeline, expedite use of the pipeline by oil companies operating in Kazakhstan, support constructing a BTC gas pipeline to export Azerbaijan’s Shah Deniz gas, and otherwise encourage the Caspian regional states to provide a stable and

inviting business climate for energy and infrastructure development. Since 9/11, the Administration has emphasized the vulnerability of the United States to possible energy supplies disruptions and intensified its commitment to develop Caspian energy and the BTC pipeline as part of a strategy of diversifying world energy supplies.

U.S. companies are shareholders in about one-half of twenty international production-sharing consortiums, including the Azerbaijan International Operating Company (AIOC; which includes U.S. firms Unocal and Exxonmobil, U.S. Devon Energy, and U.S.-Saudi Delta Hess), formed to exploit Azerbaijan's oil and gas fields. In 1995, Aliyev and the AIOC decided to transport "early oil" (the first and lower volume of oil) through two revamped Soviet-era pipelines in Georgia and Russia to ports on the Black Sea, each with a capacity of around 100-115,000 barrels per day. The trans-Russia "early oil" pipeline began delivering oil to the port of Novorossiisk in late 1997. The trans-Georgian pipeline began delivering oil to Black Sea tankers in early 1999.

The Clinton Administration launched a campaign in 1997 stressing the strategic importance of the BTC route as part of a "Eurasian Transport Corridor." In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on construction of the BTC oil pipeline. Estimates suggest that the 1,040-mile pipeline (carrying a million barrels per day) may cost \$3 billion. Full financing has been difficult to arrange. In August 2002, the BTC Company was formed to construct, own, and operate the oil pipeline, and it awarded contracts to begin construction in 2003, with a completion date of 2005 (U.S. construction firms awarded contracts include Bechtel and Petrofac). In September 2001, Georgia signed an accord with Azerbaijan to build a pipeline to import natural gas from Azerbaijan's Shah Deniz offshore field, and to permit remaining gas to be piped to Turkey, but plans for this pipeline are uncertain. In a September 2002 letter to the presidents of Azerbaijan, Georgia and Turkey, President Bush stated that the BTC pipeline would enhance global energy security "through a more diverse supply of oil for global markets," and strengthen regional and global economic growth and the sovereignty and independence of the region. Actual construction reportedly began in Georgia in May 2003. The pipeline does not cross Armenia, raising objections from some in Armenia of lack of access. Armenia and Iran have discussed building a gas pipeline to link up with Iran's pipelines.

Table 1. U.S. FY1992-FY2002 and FY2002 Budgeted Aid, FY2003 Estimated Aid, and the FY2004 Foreign Assistance Request

(millions of dollars)

Central Asian Country	FY1992-FY2002 Budgeted Aid*	FY2002 Budgeted Aid, Including Emergency Supplementals*	FY2003 Estimate**	FY2004 Request**
Armenia	1,337.08	107.61	98.231	49.5
Azerbaijan	337.68	51.79	59.797	41.5
Georgia	1,121.77	110.01	94.152	75.0
Total	2,796.53	269.41	252.18	166.0

Sources: USAID and State Department.

*FREEDOM Support Act and Agency budgets.

**FREEDOM Support Act and other Function 150 funds (does not include Defense or Energy Department funding).

LEGISLATION

H.R. 2800 (Kolbe)

Makes Appropriations for Foreign Operations for FY2004. Introduced July 21, 2003; reported by the Committee on Appropriations July 21 (H.Rept. 108-222). Approved July 24, 2003; placed on calendar in Senate. Earmarks not less than \$70 million for Armenia.

S. 1426 (McConnell)

Makes Appropriations for Foreign Operations for FY2004. Introduced July 17, 2003; referred to Committee on Appropriations. Ordered to be reported as an original measure July 17 (S.Rept. 108-106). Earmarks \$75 million for Georgia and \$75 million for Armenia. Provides \$2.5 million in Foreign Military Financing and not less than \$900,000 in International Military Education and Training funds for Armenia.



Source: Map Resources. Adapted by CRS. (08/02 M.Chin)