

## 7 STEPS TO NEIGHBOURLY COOPERATION IN THE SOUTH CAUCASUS

### *Streamlining regional cooperation into EU policy-making*

*The European Union is currently upgrading its presence in the Southern Caucasus- in Georgia, Azerbaijan and Armenia; this will require promoting cooperation among the three republics and between them and their neighbours- Turkey, Iran and Russia. But what policy instruments does it have at its disposal to achieve this task?*

*This briefing reviews some of the EU's relevant "first pillar" instruments and identifies those obstacles to, and opportunities for, enhanced involvement in promoting regional cooperation in the South Caucasus. This year-2006- is as good a time as any to check the policy toolbox: EU policy in all three Southern Caucasus countries is in the process of being reformulated; Turkey's accession process is in its early days; and EU funding 'instruments' are being redesigned for the next seven years.<sup>1</sup>*

### 1. INTRODUCTION

Southern Caucasus countries matter more to the EU today than they did in the past: under the European Neighbourhood Policy, the EU seeks to promote stability, democracy and development in its periphery, which includes Georgia, Azerbaijan and Armenia. The region is also a transit route for oil and gas, whose access has gained in political significance of late.

The EU's objective for the region is to promote stability (including conflict resolution), democratic reform and development in the South Caucasus. Some degree of regional cooperation between the countries of the region will be needed to achieve these goals. Azerbaijan, Armenia and Georgia agreed as much with the EU Council of Ministers in declaring together back in 1999: *"We emphasise the importance of regional cooperation for the creation of amicable relations between the states of the region and for the sustainable development of their economies"*.<sup>1</sup>

Regional cooperation is an issue in the Caucasus because the region is suffering from the consequences of unresolved conflicts. To this day, relations between neighbouring states remain dysfunctional, and the cooperation announced in 1999 has still not materialized.

The status-quo- separate development, closed borders and isolation- is not an option. Not only would separate development be contrary to the "shared European values" which the ENP intends to promote in the region; it is not in fact viable in a region with the total population of the Netherlands and an aggregate national income equal to 60% of Luxembourg's<sup>2</sup>. Georgia, Armenia and Azerbaijan's territories are interlocked and each of them needs its neighbours to reach out to the rest of the world.

### **Azerbaijan, Turkey and Armenia**

Today, Armenia's two longest borders, with Turkey to the South and Azerbaijan to the East, are completely closed<sup>3</sup>. Relations in most fields are virtually non-existent: Azerbaijan and Turkey entertain no diplomatic relations with Armenia, and prohibit official trade and other forms of economic relations with this country. Human contact is also difficult, as ethnic Armenians, furthermore, are not welcome in Azerbaijan, though they can freely travel to Turkey.

The current status quo has remained unchanged since the early 1990s and is connected to the Karabakh war that was fought from 1990 to 1994 between the Armenians of Nagorno-Karabakh and the government of Azerbaijan. Azerbaijan, supported by Turkey, hoped to exert pressure on Nagorno-Karabakh Armenians by blockading Armenia.

<sup>1</sup> Note that this briefing tends to focus on the relationship between Armenia and its neighbours, Azerbaijan and Turkey. Most of its recommendations, however, are relevant to the region's other countries as well, and in particular to Russia and Georgia.

The policy has produced no result other than entrenching a conflict but Turkey and Azerbaijan have now stepped it up regardless by investing to build regional infrastructure that specifically by-passes Armenia. The Baku-Ceyhan oil pipeline, completed this year, takes the long road from Baku to Turkey, via Georgia; a gas pipeline will soon follow the same route. An entirely new regional railway network is also envisaged, as the existing one passes through Armenia. If built, the new railway would entrench Armenia's isolation and make the prospect of regional cooperation in the future more remote still<sup>4</sup>.

### **The EU's role**

The EU has been cautious not to side with either party to the conflict: it has called for all to compromise in the interest of conflict resolution; it has warned against attempts to resolve the deadlock through military means; it also stands for open borders and regional cooperation, and has stated this clearly. The core of its position has been to support the work of the OSCE's Minsk Group whose mission, since 1994, has been to try to broker a peace deal.

The International Crisis Group, an international NGO dedicated to analysis and policy advice on conflicts, contrasts the EU's interest in peace-making elsewhere with its lack of involvement in the Nagorno Karabakh conflict: "*[the EU] has done virtually nothing in or around Nagorno-Karabakh since the 1994 cease fire. This is partly because Baku has strongly discouraged it from funding similar projects*". Furthermore: "*In the Nagorno-Karabakh conflict, it offers little more than verbal support to the OSCE Minsk Group process*".

Europe is thus faced with a dilemma: should it support cooperation even before a peace settlement is reached, and thus undermine Azerbaijan's and Turkey's tactics? That would be seen as siding with Armenia. Or should it wait until a settlement is reached before promoting cooperation? That would be tantamount to acknowledging the blockade as a legitimate tactic. Neutrality, in this case, does not seem to be an option.

In effect, the EU has so far chosen to stay the course of rhetorical action: call for, but not press for, open borders and cooperation; and warn that all parties will continue to suffer until the conflict is resolved.

Yet the EU would have considerable leverage on Turkey, Armenia and Azerbaijan to enforce a move towards normalized relations, if it chose to use it. Turkey is a candidate country and is already undergoing major changes in policy on other fronts under EU pressure and guidance. It will have to normalize relations with Armenia in due course, but the EU has not prioritized the issue. And Europe certainly has considerable influence on Azerbaijan and Armenia, two small, poor, pro-western countries whose relations and trade with the EU are vital.

### **The dangers in the current situation**

After 12 years of relative stability, the region's economies are growing fast- Georgia at 7%, Armenia at 14% and Azerbaijan at 26% in 2005- and governments are muddling through<sup>5</sup>. Might time heal the wounds of war and pave the way to normal neighbourly relations?

Not necessarily: many observers now worry that the situation in the Caucasus is increasingly dangerous. Economies are growing again, fuelling a surge in military spending, particularly in Azerbaijan. The continued confrontation between Armenia and Azerbaijan is also undermining efforts towards democratization. Turkey's and Azerbaijan's strategy of redesigning regional infrastructure to exclude Armenia permanently, furthermore, is putting future cooperation and indeed prospects for peace in jeopardy.

The longer the status quo lasts, the more likely Europe is to be confronted with intractable problems or new tragedies on its doorstep. But what is there to do?

Several reports have recently been published with useful and usually convergent advice to policy-makers in the EU<sup>6</sup>. The International Crisis Group's recent report for instance points to a number of avenues for action to help improve relations between neighbours or resolve conflicts. In the field of "Crisis Management", these include:

- Support regional programmes
- Strengthen Commission capacity in the region
- Promote confidence building across ceasefire lines
- Increase engagement with non-recognized entities
- Promote human rights and democracy funding opportunities

- Be ready to support an eventual peace settlement in Nagorno-Karabakh.

The new EU Special Representative for the South Caucasus, Peter Semneby, hopes that the EU might become more active. As they prepare for the day, however, EU institutions might ensure that their decision-making process and policy instrument are compatible with their objectives. This requires no major breakthrough in negotiations, no major exertion of political will, and no new high-level political decision. Applied thoughtfully, the specific measures described in this paper may already contribute to building confidence on the ground, to helping neighbours engage once again after 15 years' separation, and to opening the way to more decisive action later on.

## 2. THE POLICY-MAKING FORA

- **Meetings between those responsible for making EU policy for Armenia, Azerbaijan, Georgia, Turkey and Russia could help ensure that the policies they formulate are consistent, and that they promote cooperation between neighbours.**

**Explanation.** European-level policy-making involves a considerable number of actors; in this context, process, matters. The institutions' worldview and administrative setup has unfortunately been known to contribute to missing opportunities to contribute to regional cooperation.

For instance, in the Commission, Parliament and Council, relations with Turkey are dealt with by departments specialized in Enlargement; while relations with Armenia and Azerbaijan are dealt with in entirely different bodies, under External Relations, and now the European Neighbourhood Policy. Contacts, formal or informal, between these bodies are usually minimal. The result is an inevitably fragmented approach, as EU policy-makers appear to ignore the Caucasus' neighbours when addressing the situation there, just as their colleagues tend to ignore the Caucasus when talking to its neighbours.

The European Parliament's delegations dealing with the Republics of the South Caucasus and the delegation dealing with Turkey could hold a joint meeting to examine EU contributions, actual and potential, to regional cooperation in the area<sup>7</sup>.

The Council for its part should hold working meetings involving diplomats and officials dealing with Turkey, Russia and the South Caucasus in order to help promote consistency in its policies towards the region.

## 3. OPERATIONAL INSTRUMENTS

### The new financial instruments

- **Ensure that the new financial instruments currently under preparation take into account the borders between Armenia, Azerbaijan and Turkey.**

**Explanation.** The EU's next financial perspective will cover the period 2007 to 2013, and a batch of regulations governing its financial instruments over this period is due to be adopted by the end of the year. Decisions taken now are likely to influence the Union's work for a full 7 years. By 2013, with Turkey probably on the threshold of actual accession; it will be late in the day to start new strategic initiatives for regional cooperation.

### Cross-border programmes

- **Ensure the ENPI's cross border programme for the Black Sea basin allows or indeed encourages the funding of cross-border projects between Turkey and the South Caucasus**

**Explanation.** The European institutions and the countries surrounding the Black Sea (including Armenia and Azerbaijan) are currently negotiating a new "cross-border" programme to be funded in part under the ENPI budget and in part under EU regional funds. This programme would fund projects to span the border between EU member states on the one hand, and Neighbourhood states around the Black Sea, on the other. But Turkey risks being left out: as a candidate country, it is covered neither by the ENPI nor by the regional funds.

Turkey does however benefit from a substantial aid package called the Instrument for Pre-Accession Assistance (IPA). So the Commission, Member States and Turkey can ensure that part of the IPA's funding is allocated to the

cross-border programme so that Turkey, a candidate country, may be included in cross-border projects with Neighbourhood countries.

#### Pre-accession assistance to Turkey

- ***The Commission should ensure EU budgets allocated to regional development in Turkey's Eastern region promote cross-border cooperation as well.***

**Explanation.** The European Union is now making a major investment to prepare Turkey for EU accession, with a current yearly expenditure of 277 million (for 2005) due to increase sharply next year. A significant part of this goes towards regional development in Turkey's poorest regions.

The Turkish border with Armenia spans from the town of Ardahan, to the West, to Iğdır, to the East, with Kars and Ağrı in between. This region, known as "Ağrı, Ardahan, Iğdır and Kars", is also the country's very poorest, at 8% of EU GNP- less than a third of the Turkish average. It will receive a significant part of the EU's cash.

The region's problem is its distance from its markets: Ankara, the capital, is 600 kilometres away; the next closest city of any size is Erzurum, 400 000 inhabitants, 200 km away. Yerevan, Armenia's capital, with a population of 1 million, is only 50 kilometres away, but it is off limits to those striving to develop Eastern Turkey as a result of the government's decision to keep the border closed.

Turkey's development cannot be achieved through cash injections alone. Financial support for the development of these regions must go hand in hand with a sound development strategy- based on open borders and normal trading relations.

In the short term, the European Commission should therefore ensure that the Turkish authorities running the programme address the region's fundamental problem: the artificial obstacles between local producers and their market in Armenia and Azerbaijan. It might thus support exploratory contacts, or efforts to market local produce to Armenia via Georgia.

In due course, however, the EU would be well advised to ensure that opening the border is fully integrated in the region's development strategy.

#### The Instruments for Stability and for Human rights

- ***Ensure relevant EU financial instruments and subsequent implementing programmes allow the funding of cross-border cooperation and are formatted to promote cross-border projects. This would apply in particular to the EIHDR's successor human rights programme and possibly to the EU's Stability Instrument (SI).***

**Explanation.** The EU is about to launch a number of funding instruments and programmes. Under the headline of promoting stability, the new Stability Instrument will support a wide range of activities such as conflict resolution and peace-building as well as tackling various threats to the international order such as terrorism and international crime. The EU also proposes a separate instrument dedicated to promoting democracy and human rights, a successor to the current European Initiative for Democracy and Human rights (EIDHR). The budget announced for the SI alone over the next 7-year period is in excess € 1 billion.

Neither the existing EIDHR programme nor existing conflict-resolution budgets, however, seem to have ever been used so far to promote cross-border relations or confidence-building between Armenia, Azerbaijan and Turkey. That must be considered an anomaly. The new financial instruments should therefore be designed to allow the Commission to initiate projects in this field.

#### Regional technical assistance programmes

- ***Press for actual cooperation in existing regional programmes***

**Explanation.** Though it has not in fact invested much, if at all, in either confidence building measures or "people-to-people" projects across the borders between Armenia and its neighbours, the EU has supported a number of

regional Technical Assistance projects- including TRACECA and INOGATE, or such smaller ventures as the Regional Environmental Centre in Tbilisi. TRACECA promotes the establishment of transcontinental transport corridors; INOGATE is dedicated to a similar purpose in the field of oil and gas transit.

But, despite the injection of EU cash, TRACECA and INOGATE have not been used as opportunities to push cross-border cooperation in the Southern Caucasus. Turkey and Azerbaijan's insistence on keeping borders closed did not seem to be perceived in Brussels as irreconcilable with the programme's purpose- nor was pressure brought to bear on them for at least modest projects involving infrastructure linking them to Armenia.

They should be in the future: the EU should ensure that signed agreements involving regional programmes (such as the agreement TRACECA is based on) are fully implemented by all parties, and that declarations pledging "regional cooperation" are acted upon.

#### Other instruments and programmes

- ***The EU should encourage other programmes to support cross-border projects in the region.***

**Explanation.** The EU runs a wide range of funding programmes, in the fields of culture and heritage, Youth, European citizenship, education, and so on. Some of these programmes already cover the Southern Caucasus, Russia and/or Turkey. Others are being extended to some or all of these countries.

These programmes tend to be relatively flexible, and have already funded a number of small projects in the Southern Caucasus. This can contribute to confidence building, even though that is not their primary objective. The agencies and committees in charge of these programmes' management should be briefed about the situation in the countries of the Southern Caucasus and about the EU's objectives there, so that they might support relevant projects, including cross-border projects.

Our interests include how European integration affects the development of the Armenian Diaspora and other diasporas of Europe; the strengthening relationship between the EU and the Republic of Armenia; and the prospect for profound transformation which Turkey's status as a candidate for EU membership might offer.

#### **ABOUT INSIDE EUROPE**

Inside Europe is a public policy and resource centre dedicated to EU policies relating to Armenia and the Armenian Diaspora. More on: [www.insideeurope.org](http://www.insideeurope.org)

For more Information on the subject of this briefing, contact Nicolas Tavitian at [nicolas.tavitian@insideeurope.org](mailto:nicolas.tavitian@insideeurope.org). Tel (0495) 77 08 67.

<sup>1</sup> Joint Declaration of the European Union and the Republics of Armenia, Azerbaijan and Georgia Luxembourg, 22 June 1999. Numerous subsequent documents elaborate on this theme.

<sup>2</sup> In 2004: the figures were as follows. Populations: Armenia, 3 million, Azerbaijan 7.8, Georgia 4.5. GNI: Armenia 3.2 bn, Azerbaijan 7.8, Georgia 4.8. Source: World Bank data.

<sup>3</sup> Burcu Gültekin et Nicolas Tavitian. Les Relations arméno-turques: la porte close de l'Orient. GRIP, Bruxelles, Avril 2003. [http://www.grip.org/pub/rapports/rg03-1\\_armenie.pdf](http://www.grip.org/pub/rapports/rg03-1_armenie.pdf).

<sup>4</sup> The 1999 Joint declaration signed by the EU and the three states of the South Caucasus called for "the rehabilitation of transport, telecommunication and other relevant network infrastructure systems in the region, including the Baku-Nakhichevan and Yerevan-Julfa railways and North-South links between Russia and Georgia [which] is a very important confidence-building measure. We agree to create favourable conditions for the reopening of these communication links as soon as possible, and subsequently, as appropriate, of other links between the three states and their neighbours." But it came to nought.

<sup>5</sup> Figures for 2005. Source: the CIA World Factbook. <http://www.cia.gov/cia/publications/factbook/geos/aj.html#Econ>

<sup>6</sup> Laurence Broers, ed. The limits of leadership Elites and societies in the Nagorny Karabakh peace process. Conciliation Resources, 2005. <http://www.c-r.org/our-work/accord/nagorny-karabakh/contents.php>. Also: ICG. Conflict Resolution in the South Caucasus: The EU's Role. Europe Report N°173 20 March 2006. <http://www.crisisgroup.org/home/index.cfm?id=4037&l=1>.

<sup>7</sup> It seems that only one such joint meeting has ever been held- between the European Parliament's delegations for the South Caucasus and for Russia.