

**A STABILITY PACT
FOR THE CAUCASUS
IN THEORY AND PRACTICE -
A SUPPLEMENTARY NOTE**

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ISBN 92-9079-309-0

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CEPS Working Document No. 152, November 2000

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Abstract

In response to appeals of the leaders of the South Caucasus for a Stability Pact for the region, CEPS published in May 2000 a consultative document with a comprehensive proposal (available on www.ceps.be). Subsequently the authors have held extensive consultations with the leaders in all three states of the South Caucasus, and in four of the key autonomies (Nagorno Karabakh, Abkhazia, Adjara, Ossetia). The present paper draws together the information and ideas collected during these consultations, although the conclusions are only attributable to the authors. The main argument of the original document is maintained, and strengthened with more precise views on how the conflicts might be solved within the framework of a Stability Pact. However the proposed Stability Pact process could be more than just an approach to conflict resolution. It has systemic or even constitutional aspects, with elements to overcome the transitional problems of the weak state and ease the confrontations of traditional notions such as independence versus territorial integrity, or the choice between federation and confederation, which are part of the present impasse. Particular consideration is also given to how a Caucasus Stability Pact could serve the interests of Russia as the region's key player, together with enhanced cooperation with the EU over a Southern Dimension concept.

* This paper was first presented at a conference organised by the Armenian Center for National and International Studies on 'Prospects for Regional and Transregional Cooperation and the Resolution of Conflicts', in Yerevan, 26-28 September 2000. The authors are members of the Caucasus Task Force of the Centre for European Policy Studies (CEPS), Brussels. They wish to thank other colleagues of the Task Force for helpful suggestions in the preparation of this paper, especially Sergiu Celac and Bruno Coppieters. Comments are welcome:

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1. Introduction

Maybe there could be soon a convergence of thinking in the Caucasus and among the main interested powers on how to break the deadlock over the unresolved conflicts in Nagorno-Karabakh, Abkhazia and Ossetia, and basically turn a new page for the history of the whole region. This is the idea behind A Stability Pact for the Caucasus.

The *status quo* has become too tragic and absurd for the people of the region. A political window of opportunity has now exists for a new initiative, and the forthcoming OSCE ministerial meeting in Vienna in November will reveal whether some momentum in favour of this Stability Pact can be developed.

Tragic of course because of the miserable living conditions of the refugees from these areas; and for the present populations in the conflict regions, which may have won some small wars but have clearly not won the peace. But also for the entire region, whose economic development has been stuck way below its economic potential, in part because of the blockades of Armenia and Abkhazia and the continuing perceived insecurity for potential investors. Worse still, political insecurity, economic impoverishment and corruption are caught up together in a disastrous circularity. Wages in the public sector are so low that corruption has become endemic and endogenous. Customs officials, police and those with power over economic regulations extort bribes to survive. But this further weakens budget revenues and damages the business environment. These tendencies also aggravate the secessionist disputes. Some frontier regions have become specialised in smuggling, and so positions become even more entrenched: the centre loses customs revenues and becomes even less able to support minimal salaries, pensions and social expenditures. These economic tensions combine with inter-ethnic mistrust to accentuate the vicious circles of terribly low living standards, demoralisation and emigration of the most able.

Absurd because some of the political rhetoric impeding resolution of the conflicts has become disconnected with the realities of any plausible outcome to negotiations, verbal trench warfare between those insisting on preambles, which for one side speak of “independence” and for the other side speak of “territorial integrity”, as if these were absolute and sacred values. Of course there are things that are sacred, such as the ancient churches and monasteries and mosques of the Caucasus, and will remain sacred for all time. But any small region, which wishes to prosper in the new millenium, and happens to have inherited a complex mix of ethnicities and layer upon layer of historical contradictions, with the ebb and flow of various empires, will have to settle for “interdependence” and “multiple territorial jurisdictions”. The alternative is to insist on resolving the contradictions between absolute “independence” and “territorial integrity” by new wars, or less harmfully by tacit agreement to use some of this language for just for non-operational political declarations. The Caucasus region has indeed

become tired of war, and leaders at least state their resolve to achieve peaceful resolution of conflicts.

There are no doubt the reasons why, starting at the OSCE Summit in Istanbul in November 1999, leaders of the region have made consistent appeals for some kind of stability or security pact for the region as a whole (Presidents Aliev, Kocharian and Shevardnadze, and former President Demirel). However these speeches were only at the level of a general idea, and lacked operational specification. Meanwhile Mr. Max van der Stoep suggested to the Centre for European Policy Studies (CEPS), an independent think tank in Brussels, to work on this question. Following a preliminary conference in January in Brussels, CEPS published in May a draft “*Stability Pact for the Caucasus*” as a consultative document.¹ The summer months saw extensive discussions of these proposals, and travels by members of the CEPS Task Force to the capitals of the South Caucasus and to the conflict zones (Nagorno Karabakh, Abkhazia, and Ossetia, as well as to the more peaceful Adjara). The present note therefore supplements and updates the arguments in the light of these consultations, but the conclusions are only attributable to the author.

Box 1: A Stability Pact for the Caucasus – A Summary of CEPS Proposals

Three actions in the South Caucasus:

1. Conflict resolution in Nagorno-Karabakh, Abkhazia and South Ossetia
2. Regional security order under OSCE
3. Initiation of a South Caucasus Community

Three actions for wider regional cooperation:

4. EU and Russia to develop a Southern Dimension cooperation
5. Enhanced role for Black Sea Economic Cooperation
6. Improved legal framework for oil and gas (Caspian Seabed, pipeline transit protocol)

Plus, overarching mechanism for Stability Pact strategy, consultations and coordination.

Source: A Stability Pact for the Caucasus, CEPS, May 2000. Available on www.ceps.be

2. The CEPS proposals and reactions

While the main features of the CEPS proposal are listed in Box 1, some points warrant further explanation and amendment in the light of reactions from consultations in the region during July and August.

1/ There would be a *comprehensive, multilateral approach*, given that there are *linkages* between the conflicts and likely *synergies* from their parallel solution. These linkages became all the more obvious in the course of our travels, at both regional and geo-political levels. Thus Ossetia waits to see how Abkhazia will be resolved, while Abkhazia waits for Nagorno Karabakh. UN and OSCE negotiators have session after session as the years pass by. However only the major powers can engineer a switch away from the paradigmatic set of opposing virtual alliances, in which one set of actors see themselves as protected by Russia and another set as protected by the West. The alternative paradigm is that in which there is

¹ “*A Stability Pact for the Caucasus*”, CEPS, edited by S. Celac, M. Emerson and N. Tocci, with T. Adams, B. Coppieters, A. Lionu, J. Radvanyi, T. Waelde, M. Vahl and N. Whyte. The text is freely available on the CEPS website (www.ceps.be), together with papers from the January conference.

settlement of conflicts under the aegis of common organisations and norms, with the OSCE having an obvious vocation in a comprehensive multilateral solution for the Caucasus region. In practice there needs to be a sufficient change in the balance between these two alternative paradigms, both of which will continue to co-exist to a degree, but with different weights. The synergies would come with economic, political and societal benefits, as the whole of the region would profit from a revised rating as an investment environment, with its reputation upgraded from being “a high risk conflict region”, to a “peaceful, post-conflict region”.

2/ There would be *priority given to resolution of the conflicts*, but the international community should not be waiting for the conflicts to be settled before opening up such perspectives of a wider cooperative strategy for the whole region. On the contrary, *elements of a new regional order* would be built into political settlements of the conflicts. Examples include giving the OSCE a leading role in a regional security order, and preparations to initiate a South Caucasus Community to open up new perspectives for economic and political cooperation and in due course integration. Such elements of regional integration would become part of the solution, and become alternative avenues for enlightened political leadership, compared to the deadlocked struggles for ‘independence’ versus ‘territorial integrity’.

3/ The proposal is in the *family of modern European solutions*, drawing encouragement and legitimacy from the fact that all three countries of the South Caucasus now become members of the Council of Europe, and with Russia also share of course membership of the OSCE. Beyond the formal norms of these organisations, there are contemporary European experiences of ethno-separatist conflict resolution, both in the mature democracies (Northern Ireland, Belgium, the EU itself etc) and in the weak states of the former Yugoslavia, which have some features in common with the Caucasus. The CEPS paper adopted a “tool-kit” approach, in identifying different mechanisms, such as shared sovereignty, interdependence, equality between ethnic communities and cultures, regional integration and multi-tier structures of governance, sometimes asymmetric (i.e. with state and sub-state entities cooperating for certain functions). Interestingly, in the course of the consultations held in the region, while some people were dismissive of “irrelevant European models”, more frequently there was both keen interest and considerable knowledge of these various model cases.

4/ A careful attempt should be made to find an optimal balance between solutions for the South Caucasus and a *wider regional order inclusive of the interests of Russia*, which has its obvious worries over the future of the North Caucasus. Russia’s interest may be conceived, for the future, as viewing positively a more successful order in the South Caucasus. If the region became more prosperous, open to trade and more convergent on democratic-civil society norms, this should be a helpful influence for the efforts to move the North Caucasus progressively in the same direction. In addition, a strategy of this kind could encourage an offer by the EU and the international financial agencies to aid economic development of South Russia and the North Caucasus, inter alia through North-South infrastructural axes joining those along the East-West Silk Road axis already under development. A further instrument would be to boost the BSEC organisation’s role in Black Sea-Caucasus-Caspian cooperation, to which the EU could contribute. These various initiatives could be combined in a “Southern Dimension” strategy, which Russia and the EU would recognise as an extension of their mutual cooperation in the “Northern Dimension” (Baltic and Barents Sea basins).

5/ This comprehensive multilateral process should be identified by a name and the term *Stability Pact for the Caucasus* is an obvious candidate. It is already being used by political

leaders of the Caucasus region. It has no rigid organisational or constitutional meaning, and so can be accommodating. The Balkan Stability Pact is *not* suggested as a model, beyond the idea of a comprehensive, multilateral, regional initiative. More precise proposals on this point are made below

3. Constitutional and systemic forms

This section addresses three questions of political principle:

- whether there are grounds to justify the demands of the separatist entities for outright independence?
- if not, could a continued search for agreement to be found at some point on the spectrum federation to confederation likely to give adequate results?
- if again not, is there some other political construction, for example a Stability Pact, which could offer better chances of success.

Our answers, in advance, are no, no and yes, in that order.

The independence question

All of the three secessionist entities in the South Caucasus (Abkhazia, Nagorno Karabakh and South Ossetia) demand full independence. Do any of these secessionist entities have normative grounds for independence, i.e. consistent with rules for the good order of democratic political systems and international relations? Or is it just a matter of *Realpolitik*, for which the only language is the threat of force and ultimately war? Political theorists have addressed these normative questions and there is a very real debate between political scientists who share liberal democratic philosophies² This is precisely on the question whether the norms of international democracy should be open or conservative towards democratic claims for secession³.

For a first school self-determination is regarded itself as a democratic right, and a plebiscitary right to secede should thus be recognised accordingly (Scotland or Quebec are two examples where referenda in recent times could have delivered majorities for independence, which would have been accepted by London and Ottawa – but in the event the majorities were not forthcoming).

For a second school the norms or rules are conservative on secessionist claims, on the grounds that the open option for secession risks degrading the quality of democratic governance. If a plebiscitary right to secession were recognised there would be the risk that secessionist minorities could hold the majorities constantly as political hostages, and that of a system biased in favour of ever decreasing circles of ethnically discriminating independence movements. The more conservative political scientists set out a list of stringent conditions to be satisfied in order to justify a people's right to secession:

- there should be a well identified people and territory
- there should be a just cause, e.g. discrimination against a minority people

² See M. Moore ed., 1998, *National self-determination and Secession*, Oxford University Press; S. Xiaokun, 2000, *A Unified China or An Independent Taiwan? A Normative Assessment of Cross-Strait Conflict*, Free University of Brussels, mimeo.

³ See respective positions of A. Buchanan, *“Democracy and Secession”*, and K. Nielsen, *“Liberal Nationalism and Secession”*, in Moore, ed., op.cit.

- there should be a capacity for sound governance, including assurances for new minorities, and control over possibly harmful external repercussions.

In practice for the Caucasus, while the political leaders of the conflict regions have unsurprisingly managed referenda in favour of independence among their newly ethnically cleansed populations, there seems to be unanimity among the major powers and international organisations that independence is not supported. Russia fears demonstration effects in the Northern Caucasus and the West is particularly sensitive to the risk of wider still demonstration effects in the Balkans and elsewhere. Compared to the above criteria, Abkhazia and South Ossetia do not score well enough. Nagorno Karabakh scores better, but here there is the particular risk that independence could turn out to be just a short step away from complete integration into Armenia, which the newly independent NK would be free to choose. While this prospect might be agreeable to both Armenia and NK, from an international point of view there would be the very serious concern over possible interpretations that this was a precedent for irredentist acquisition of territory by war. In general precedents of irredentism by war may be feared in post-communist Europe even more than precedents of mere independence.

Taking the three sets of criteria above, and the risks just discussed, the conservatism of the international community over contemporary claims for independence has serious, objective foundations. It is assumed therefore that there will remain consensus among the sovereign states of the South Caucasus, Russia and the major external powers and the international organisations such as UN and OSCE that none of the conflict regions of the South Caucasus, nor indeed Chechnya in the North Caucasus, should be granted recognition of outright independence.

The federation-confederation question

For the conflicts of the type found in the Caucasus a traditional line of thinking and attempted negotiation is to view the solution as having to be found somewhere along the spectrum of centralisation or decentralisation of the state or states. There are in this traditional view two broad classes of solution, with either one or more internationally recognised sovereign states (see Box 2). Hence, in the case of the South Caucasus conflicts, the question is whether the solutions should take (a) the form of an entity organised as an autonomy within a federation or a federacy, in which relations between the state and the sub-state entity would be vertical, or (b) whether the form would be that of a confederation, or association or a common state, thus allowing the international recognition of separate sovereign states tied by horizontal state-to-state relations.

Box 2. Federation and confederation in international public law⁴

Sovereignty - International public law sets out a number models for the organisation of state structures, which are conventionally used in the discussion of the constitutional resolution of ethnic conflicts. The key legal concept underlying these models is that of *sovereignty*, which is assumed to be one and indivisible. All models thus fall into one of two categories: there is either one, or more than one state with indivisible external sovereignty and inviolable borders. All other matters including internal sovereignty, are considered to be an internal state affair. Federation is in the first category, confederation in the second.

Federation - Within a single state the division of competences between the central and the regional

⁴ See B. Coppieters, *Federalism and Conflict Resolution: Perspectives for the Caucasus* RIIS/Brookings Institution Press, forthcoming 2001.

levels is constitutionally entrenched and thus may not be unilaterally revoked. In a federation ‘central and regional authorities are each endowed with exclusive fields of legislative and executive competence’⁵, allowing each to be co-ordinate but independent in their spheres of governance. While internal sovereignty may be divided, externally the federation remains one internationally recognised state, with a single nationality and territory⁶. As far as the international community is concerned a federation ranks equal to a unitary state, with the same international status. The federation may entrust some competences in the field external relations to the federated states, but the international role of the latter does not amount to their external sovereignty. The federation remains a sovereign state consisting of non-sovereign states⁷.

Federacy - a small entity attached to a larger entity within one state. The smaller state may be highly autonomous within its internal affairs, but has no constitutional rights to participate in the governance of the larger entity at the central level. As in the case of a federation, the federacy enjoys external sovereignty and is thus considered as one personality by the international community.

Confederation – the classic form a state structure where each state retains its sovereignty and international personality, and which is a treaty based association of sovereign states. The confederated states voluntarily choose to assign to the central authorities particular competences in order to serve particular purposes. These often include areas such as defense or foreign relations, where a union of states better serves the interests of the sovereign members. The confederated states are linked through their governments and decisions are taken on the basis of unanimity. Citizens of a confederation retain the nationality of the sovereign confederated state. A confederation may represent the first step in a move towards federation and thus the adoption of a single constitution. In substance, competences may little change, but for international public law the adoption of a single constitution implies a change in the international personality of the states (from two or more state to one). Thus, while the member states of a confederation have a unilateral right to secede, in a federation they do not.

Associated state - another model governed by a confederal logic. This sees a small state associated to a large one. The former may delegate some of its competences to the latter, yet it retains its separate international personality and may secede at any time.

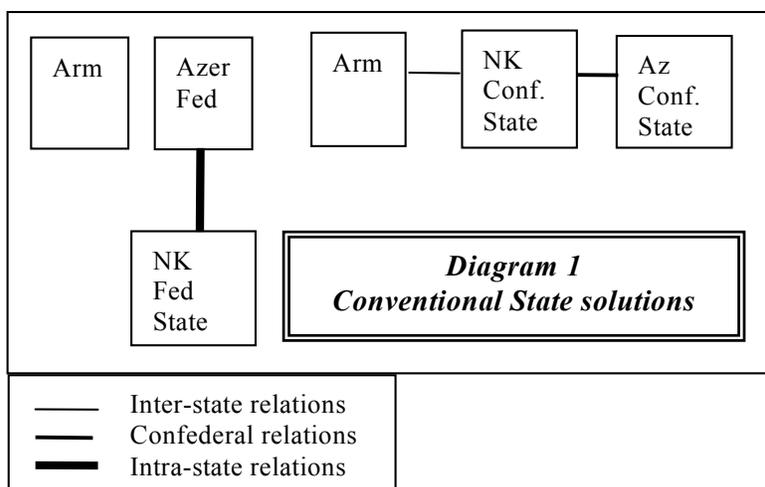
The conflict situations of the Caucasus appear deadlocked in irreconcilable opposing demands for confederation/common state solutions on one side versus autonomy/federal solutions on the other. With the rejection of confederal (including common state) solutions by the recognised states (Georgia and Azerbaijan), the sub-state entities are radicalised and demand outright independence.

These notions all belong to a stylised diplomatic convention, where there is a two regime world consisting of, on the one hand, independent, sovereign, UN-recognised states, and, on the other hand, of miscellaneous “other” entities which are a mixed bag of non-recognised would-be states and perfectly legitimate non-state autonomies within other independent states. This simplification reflects the traditional diplomatic convention of the so-called “modern” (or more correctly 17th century Westphalian) state, meaning effectively the nation state which has an unrestricted monopoly of the use of power internally within its territory, and otherwise deals with other such states as matters of external international relations.

⁵ S.A. de Smith, ‘*The New Commonwealth*’ p.254.

⁶ M.Prélot, J.Boulouis, ‘*Institutions Politiques et Droit Constitutionnel*, 11th ed. P.262-63.

⁷ F.Ermacora, ‘*Allgemeine Staatslehre*’, p.649.



The Stability Pact question

This conventional thinking is increasingly out of line with contemporary realities and needs, especially in Europe with its dense packing of ethnicities faced with multiple pressures: for decentralised governance as well as integration in the face of globalisation, and for handling historical tensions between national and ethnic communities, in some cases at the same time as the stresses of the post-communist transition. The response to these pressures sees the emergence of radically different forms of political structure.

One model is that of the European Union, which chooses the integration route, already with 15 states, and with the total number rising possibly to 35 in the course of the next decades if all actual or likely requests to join the EU are taken into account. This sees a dynamic evolution over time, with a model that has some federal and some confederal elements, but is in essence an enormous *sui generis* model. Notions of state sovereignty, as in the so-called modern state, are merged, diluted and restructured beyond recognition. Yet the new structure is not a clear cut state system of its own. The language of independence and territorial integrity recede into archives of old-fashioned talk.

For the Caucasus, neither membership of the EU nor wholesale replication of its model can be envisaged. However there are elements of what better be called “contemporary Europe” that are highly relevant for the Caucasus. These elements are listed in Box 3, and includes elements of *regional integration*, of *cosmopolitan democracy* (the plethora of international organisations), *asymmetric state relations* (useful for ethnicities which overlap state frontiers), *personalised or de-territorialised federalism* (also useful for overlapping ethnicities within a state, allowing cultural communities to have rights and competences without having to live in a specific territory), *multiple identity* (regional, state, sub-state, or double citizenship), and *transition support* (meaning specific external support to make good some of the weaknesses of the state in the early years of the post-communist transition).

Box 3. Evolutions in international political structures

Constitutional developments

Asymmetric state relations – entail direct relations between a state and a non-state entity belonging to another recognized state. Important in ethnically complex situations, where titular nations may have substantial communities of co-ethnics in another state, but where dangers of

irredentist conflict have to be averted.

Personalised or de-territorialised federalism - another useful technique for multi-ethnic situations, given the undesirability of ethnic cleansing. Cultural communities are given legal status politically and competences (typically for education, culture, and defense of minority rights) in a de-territorialised manner. Belgium is an example. Thus individuals in any region of a state may access the competences of a certain cultural community as a matter of right.

Multiple identity - citizenship can be two-tiered, for example with an international passport of a state and an identity card of a region. Alternatively these can be combined in a single passport. In other cases there may be double state citizenship. Also in the EU model there is a supranational citizenship on top of a state citizenship. The concept of multiple identities may be useful in instances of ethnically complicated situations, but its constructive use relies upon a territorial or civic understanding of identity, as opposed to an ethnic interpretation.

Common state – an ill-defined model, proposed for both Nagorno Karabakh and Abkhazia. The ‘common state’ may be described as a federal model driven by confederal logic, thus a hybrid compromise which international legal theory does not easily accommodate. Federal features include the no-right-to-secession of member states and the single foreign representation of the ‘common state’. Other aspects of the model are effectively confederal and horizontal in nature. Confederal relations imply union by treaty. But a voluntary treaty between sovereign states, which may not be revoked unilaterally and which necessarily includes the delegation of foreign representation to the central level, would limit the external sovereignty of the member states. However, as a compromise such a hybrid structure may be useful, for example if supported regional cooperation or integration structures.

Condominium – a model discussed, at least in the press, in the context of Nagorno Karabakh. The condominium sees two recognised states sharing sovereignty over a particular territory, which then does not formally belong to any one sovereign state. Rather it is shared between two states, whereby certain competences are divided between or jointly entrusted to the two state capitals.

Regional developments

Integration. This is an evolutionary model. The EU has been passing from treaty based intergovernmentalism, through institution building into growing elements of confederalism, and shared sovereignty mixed with elements of federalism. The EU now discusses whether to move in a next phase from a treaty basis to a constitutional basis. The conventional model of sovereignty becomes increasingly obsolete. A South Caucasus Community could begin to go down this track, without needing to define its final status. There could be a beginning with some institutional innovations and practical cooperation in such fields as trade policy, regional infrastructures and security.

External developments

Cosmopolitan democracy – a term for the plethora of international organizations which have grown up in recent decades, serving important security, economic or humanitarian functions. However, as Balkan experiences show, while one or other organisation can address most policy issues, they do not add up to an integrated power. On the contrary, cosmopolitan democracy is naturally weak, being an emanation of their nation-states members. As a result the international system has difficulty in coping with hard secessionist or irredentist ethnic conflicts within ‘recognized states’.

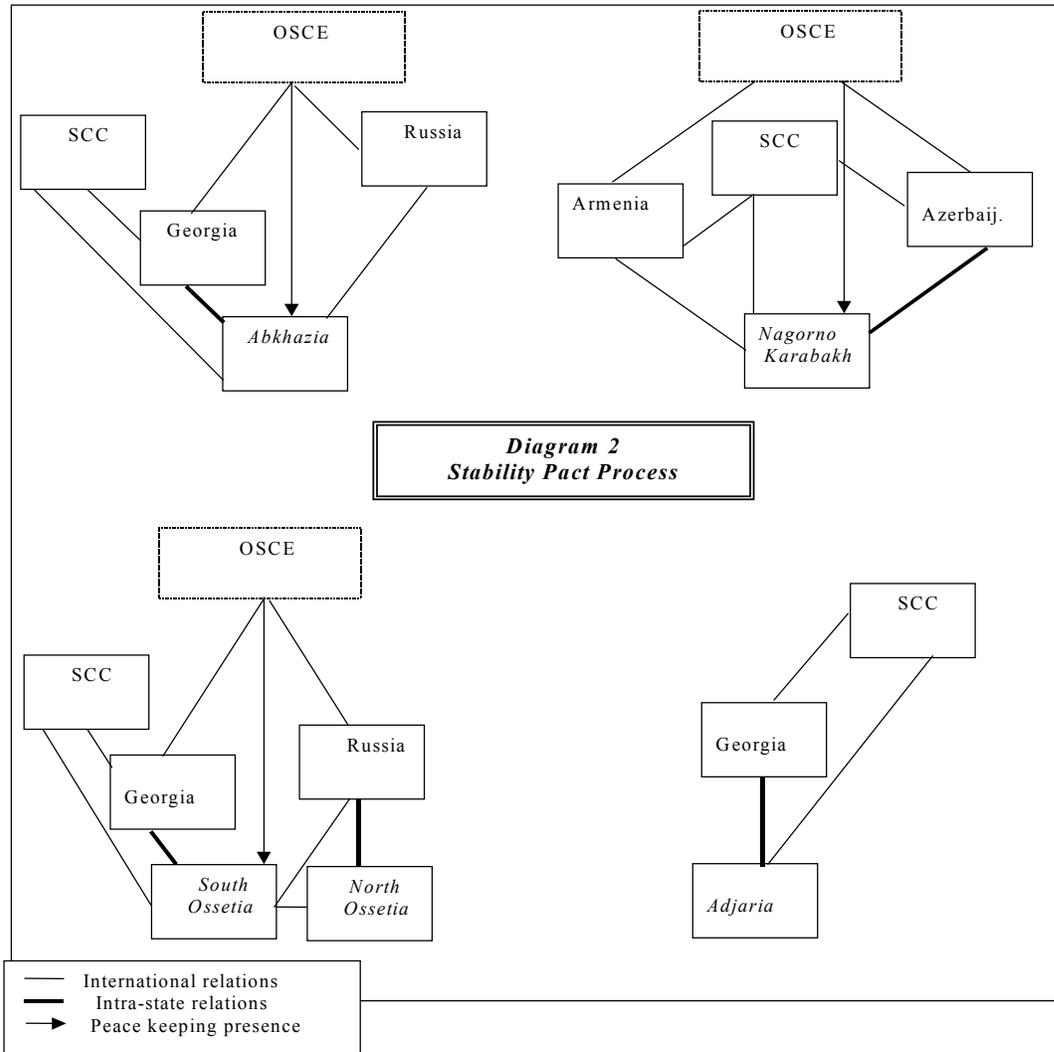
Transition support – However for transitional periods in post-conflict situations the international community may decide to reinforce weak state structures with political, economic and military resources, supporting the introduction of some of the other institutional features described above. Otherwise, in ethnically complex situations when civil society and democratic structures are still fragile and inexperienced, the simple nation-state model may tend to be biased towards ethnic conflict and cleansing in the transition.

Stability Pact. The above features may combine to amount to a special type of regime to overcome the problems of a region of transitionally weak states, which is important and specific enough to justify a name - “*Stability Pact*” as a generic term seems to serve the purpose.

This complex of elements combine in the case of some European regions to represent a new and important type of composite regime, justifying a name that takes its place in the lexicon of contemporary politics. This regime type may be called a “*Stability Pact*”. The term has no official meaning beyond the succession of Stability Pact initiatives in the last decade, from that for central Europe “Balladur initiative”, that for the Balkans since the Kosovo conflict, and that presently advocated for the Caucasus. The term enters into political usage, however, because there is an apparent demand for a word that represents a certain idea. This idea seems to be that those parts of Europe which are combining the problems of complex ethnic structures with the stresses of the post-communist transition, need a distinct type of regime. This is far richer in structure than the monolithic idea of building a small newly independent nation-state, which in practice has in so many instances slid into disastrous wars and ethnic cleansing violence.

While the term Stability Pact is sometimes used rather dismissively to refer to a process of numerous meetings of officials (Balkan Stability Pact tables), it is suggested here that a wider and more substantive view can be formed. This is of a process that combines conflict resolution, peacekeeping and security with introduction of new political structures that are designed to handle the problems of ethnic reconciliation, support the transitionally weak state and open perspectives for economic development.

The Caucasus Stability Pact would involve more substantial conflict resolution and new structures of governance than the Balkan case (which relied on the prior resolution of the Bosnia and Kosovo conflicts, and the perspective of EU integration, and so did not need another strong element). Thus the Caucasus Stability Pact would see the innovation in the role of the OSCE, in the initiation of a South Caucasus Community and direct relations between them and the autonomies as well as the states of the region. (More detail on the organisation of the Stability Pact is suggested below).



In short the Caucasus Stability Pact regime might assemble the following qualities:

- the Stability Pact system would see [as illustrated in Diagram 2] a more developed set of relationships between the sovereign states, the autonomies and regional and international organisations than the conventional state models [as in Diagram 1].
- The lead organisation, OSCE, would have direct relations with both the states and the autonomies, especially for role in supporting the political settlements, peacekeeping in the conflict zones, and building confidence in a new regional order.
- The South Caucasus Community would provide a new framework for post-conflict regional cooperation and eventually integration, in which the states would have the lead role, but the autonomies would have also their own voice and role.
- The autonomies would also have direct relationships with co-ethnic communities, either horizontal with other autonomies or asymmetric with other states. Overall the autonomies, while denied outright independence, obtain important new political opportunities.
- The states of the region would win removal of secession claims from the political agenda, and above all peace, security and a renewed opening of opportunities for economic and social advance.

4. Scenarios for conflict resolution

For reasons already discussed the scenarios exclude outright independence, but include features various features that go beyond stylised and simplified federal or confederal models. (Some of the scenario elements presented may overlap with proposals under discussion in UN or OSCE mandated negotiations, but the present authors are independent of official bodies and have no knowledge of unpublished official papers.)

Adjaria

We start with Adjaria, which is not actually a conflict region, but still one whose autonomous status and relative situation is a useful point of reference. Adjaria has a population of about 400 000 and occupies the southern end of the Georgian Black Sea coast, including the frontier with Turkey. Not having engaged in destructive separatist conflict, Adjaria is in not that bad shape. Its main city Batumi is clean and cared for. Its coast line profits from a monopoly of the Georgian Black Sea tourist trade, given the blockade of Abkhazia. Its luxuriant sub-tropical micro climate is good for the cultivation of fruit and vegetables.

As regards the political status of Adjaria, there have been tensions over its degree of autonomy during the last decade, but these never translated into demands for independence. At the level of political principle the issue was clarified earlier in 2000, when Tbilisi enacted a constitutional amendment conferring or reconfirming autonomous republic status on Adjaria. The leadership of Adjaria stresses that Adjarians are Georgians, and that Adjaria is part of Georgia. A joint commission is established to define the autonomous republic status in operational terms. This commission has not yet done its work. This should come in due course, without raising matters of international concern. However it is still worth noting how Adjaria's competences might be defined in relation to the other cases.

Adjaria has its own governmental institutions and constitution. However it has no army or police force of its own. Citizenship is simply Georgian. There is limited autonomy in policy making. Many functions of government are discharged by local branches of Georgian ministries, or by local implementation of Georgian laws. The outstanding demands of Adjaria are to give a secure and stable legal base to the distribution of competences and to order better the state of fiscal relations between Tbilisi and Batumi.

An important issue is the levying of customs duties on the Turkish frontier and at the port of Batumi. There has been tension over this point, with Batumi claiming that it delivers customs revenues to Tbilisi, but receives nothing back to pay pensions and other public expenditures, whereas Tbilisi complains about misappropriation of customs duties. The principle that customs and excise revenues are Georgian resources is not contested. But Batumi has been retaining unilaterally a certain share of these revenues, with the argument that Tbilisi has not been transferring funds for Batumi to pay for pensions and other public expenditures. A foreign service company ITS [British] has been contracted to collect customs duties, in order to overcome problems of distrust between Tbilisi and Batumi. However the whole system of budget transfers between Tbilisi and Batumi evidently needs ordering.

Abkhazia

Of all the conflict regions, Abkhazia is now in the most miserable condition, in spite of its richly endowed coastal territory reaching up to the Russian frontier. The 1989-93 conflict led not only to massive destruction, but also to depopulation of Abkhazia's fertile southern part, formerly populated mainly by ethnic Georgians. Abkhazia's former population totaled about 525 000, but this is now down to under half as many. As a result large areas are virtually wastelands, with cultivated areas returning to a natural state and housing remaining in ruins.

Even in the capital city, Sukhumi, reconstruction of war damage is moving only slowly, due to lack of funds, and prestigious government buildings and hotels remain in ruins, or at best are delapidated and obsolete. The coastal belt north of Sukhumi, formerly the most attractive riviera on the Black Sea, is in better shape. But it is only a pale shadow of its past, or indeed hopefully its future too.

The key to unlocking the Abkhazia deadlock has to lie in satisfying Abkhazian demands for political power in the region, while still accommodating refugee return, which however could threaten to restore a Georgian demographic majority. In the south, centered on Gali, there has been a large Georgian majority. In the North the Abkhazians were not in the majority but were at least the largest ethnic group. Proposals for partition of Abkhazia have been made, for example by Haidrava⁸, which we do not follow, but his statistics and proposition is worth quoting. Haidrava would divide Abkhazia through the middle of Sukhumi. For the South the 1989 census data showed 210 598 Georgian nationals, representing 63 % of the population. For the North 54 487 Abkhazians represented 28% of the population, whereas there were only 15% Georgians, the remainder being mainly Armenians and Russians. Haidrava proposed that the North should have a special autonomous status within Georgia, whereas the South would be a region of Georgia. The whole territory would be demilitarised, except for an international peacekeeping presence. The advantage of partition of Abkhazia roughly along these lines, details aside, would be to allow generalised rights of refugee return, without threatening the leading demographic-political positions of the Georgians in the South and Abkhazians in the North. Moreover the Abkhazian position in the North would probably be stronger than the above 1989 statistics would imply, since many Abkhazians from the South and elsewhere in Georgia have moved to the North, and also many Russians and Armenians have left. However the disadvantages of this proposal are also serious. The two regions would naturally risk becoming ethnically cleansed areas. Moreover if alternatively Abkhazia was made, like Belgium, into a two state federation, there would be the bureaucratic costs of building a small Abkhazian federation within a larger Georgian federal or confederal structure.

A different approach would be to take other features of the Belgian model. This might be to have a government structure that gave assurances to the Abkhazians, for example being assured half of the members of the government, and also that the president would have to speak the Abkhazian language, whereas the prime minister might be Georgian.

In addition there could be de-territorialised governmental competences for the main cultural communities, Abkhazian and Georgian certainly, and maybe Armenian and Russian also, depending on the nature and importance of these communities remaining. These cultural communities would have competence for education, culture and representation of community interests. They would exercise these competences throughout the Abkhazian territory. Abkhazia would also have rights of representation in the proposed South Caucasus Community.

On this basis Abkhazia would have a very high degree of autonomy. It would have a full governmental structure and an own constitution. International representation at the highest level would be assured by Georgia, but there would be limited powers to make international agreements and contracts. These could certainly include links with the Adigean and

⁸ I. Haindrava, 2000, *The Conflict in Abkhazia and a Possible Way of Resolving It*, in Coppieters et al., eds.

Circassian communities of the North Caucasus, who are to a degree co-ethnics of the Abkhazians.

There would be generalised right of refugee return, which would be supported by the international community for costs of reconstruction and rehabilitation. However responsibility for immigration policy, other than for this right of refugee return, might be a shared Sukhumi/Tbilisi competence. This could mean policies to control immigration from both third countries, as well as maybe from the rest of Georgia, so to offer another guarantee to the Abkhaz community that they would not be swamped by massive immigration of other ethnic groups.

Citizenship would be Georgian (for international passport) and Abkhazian for identity papers such as residence permit (as a matter of territorial residence, and not ethnicity). Abkhazian residents might avail themselves of the possibility to obtain Russian passports as an alternative or double nationality. This already happens to some extent.

Abkhazia might retain some own armed forces (national guard) as well as a police force. However security guarantees would for a transitional period be assured by an international peacekeeping force. The present hybrid Russia (CIS) peacekeeping and UN monitoring presence would be restructured. The Russian forces were ineffective during the period of Georgian refugee return in 1998, failing to keep order when there was violence, as a result of which the refugees had to flee again. Nor did the UN monitors have powers to order the protection of the refugees. This means problems of credibility for the present system. A solution could be to switch to an integrated OSCE mandated peacekeeping force, with a force structure suitably composed by nationality.

As regards the economic regime, the starting situation is one of disastrous blockade of trade, whereas the currency in circulation is the Russian rouble. Blockades would of course be entirely lifted. The trade policy and customs regime would be Georgian. If Georgia had effective free trade with Russia, that would be positive for Abkhazia. There exist in principle a free trade agreement at CIS level, whose operationality is not clear, only partly because of factors like the current blockade of Abkhazia. Trade policies might come to be determined at the level of a South Caucasus Community, starting with a properly ordered free trade in the region. As for the monetary regime, there would be no separate Abkhazian currency but the use of the Russian and Georgian currencies might operate in parallel and left to market choice. The market shares could vary by region, with more use of the Georgian currency in the south and of the rouble in the north.

Abkhazia would have large fiscal autonomy, except for tariffs and excise duties, which would be Georgian, but with some apportionment of revenues. Social security mechanisms and detailed micro-economic policy management would be Abkhazian responsibilities.

There would be some shared competences, notably for main economic infrastructures such as strategic roads, railways, ports, airports, pipelines and electricity grids. In fact cooperation between Abkhazia and Georgia has continued, despite the blockade, over electricity supplies from a frontier hydro-electric installation.

Ossetia

Georgian South Ossetia is by far the smallest of the separatist entities, with a population of under 100 000. It suffered physical damage in the 1989-92 conflict. Some return of Georgian refugees and rehabilitation has been progressing, and this could be amplified if there were more financial assistance to reconstruct housing. The political obstacles for refugee return are not so serious, given that inter-ethnic relations are not that bad, and the Ossetian

demographic-political majority is not threatened. A tripartite Russian-North Ossetian and South Ossetian peacekeeping force of three battalions commanded by a Russian effectively keeps the peace. The overall conditions for settlement are therefore not so remote. The OSCE assists tripartite South Ossetian-Georgian-Russian talks aiming at a political settlement.

Geography clearly favours South Ossetia as part of the Georgia state, given the Caucasus frontier to the North and the proximity of most of the population in and around the main town of Tskinali to central Georgia and its main East West highway (Silk Road). Ethnicity and recent history point to a case for autonomy within Georgia and special horizontal links with the co-ethnic North Ossetia, and with the scattered Ossetian population elsewhere in Georgia. Autonomous republic status as a federated state within Georgia seems plausible. South Ossetians leaders watch for a settlement of the Abkhazia dispute before being willing to conclude on their own status. But they might do well also to watch the definition of the autonomous republic status of Adjara also.

There would in any case be a full set of government institutions and an own constitution, possibly with entrenched guarantees for the Ossetian and Georgian communities in the form of quotas in government positions. The Ossetian armed forces might be run down, with transitional peacekeeping forces to be given an OSCE mandate. Its composition could take into account the rather satisfactory role of the present tripartite force.

The autonomous external relations of South Ossetia would be limited, but nonetheless of particular importance for cooperation with North Ossetia, which has the larger part of the total Ossetian ethnic population.

There are some economic problems to sort out. The local economy depends considerably on small scale trading between Russian North Ossetia and the rest of Georgia, beyond the Georgian-South Ossetian frontier. Russian exports from North to South Ossetia have to use a single tunnel route through the Caucasus mountains, at which point the goods pay no import or excise duties, since the two Ossetias are in free trade with each other, although a substantial bribe is extracted by frontier guards [reportedly \$300 per truck]. A specialisation is small scale petroleum products, transported in small road tankers down to a large open air market on the Georgian side of the South Ossetian-Georgian frontier. This is located only an hour from Tbilisi and is only minutes away from the Silk Road highway running East West through the South Caucasus. No customs or excise duties are levied there either. Georgia has requested that South Ossetia install a Georgian customs regime on the Northern frontier, which South Ossetia has refused. On the other hand Georgia refuses to levy customs or excise duties on the Southern frontier on the grounds that this would be de facto recognising the independence of Southern Ossetia.

This frontier trade, which amounts to a huge open-air duty-free shop, sees South Ossetia in part taking a free ride off the Georgian budget, although Ossetians reply that Georgian oligarchs have a great interest in the market place too. The market is also, however, in part performing a fair economic arbitrage function for many Russian produced consumer goods, for which the price level is much lower in the large Russian market than in the small and uncompetitive Georgian market. The general standard of living in South Ossetia is still extremely low, since this trading activity does not benefit everybody. In some sectors wage levels are even down to \$2-3 per month.

The main economic policy issue to resolve is the irregular trading regime for products bearing heavy excise duties. There is no reason in sound public finance and federalism for South Ossetia to profit from the huge duty free shop for Georgian consumers on its Southern frontier. The Georgian budget cannot afford to forego the revenues, and South Ossetia will

have at some stage to develop other economic activities. A deal might therefore be made between Georgia and South Ossetia. One formula could be a gradual introduction of excises levied on the South Ossetian side of the Caucasus tunnel, with some apportionment of the revenues between Tbilisi and Tskinali. Another formula would be for Georgian excises to be levied on the South Ossetian-Georgian frontier, which could be more difficult to administer. A third possibility mentioned is to levy the excises at the small town of Kurta in the middle of South Ossetia, which is geographically well placed to control all traffic coming from the North and is a mainly Georgian town by ethnic settlement. The two Ossetias could continue to enjoy a free trade regime in general (excluding excises), notably if Russia and Georgia could confirmed a regime of bilateral free trade.

South Ossetia currently uses the Russian rouble as its currency. A convenient solution on this monetary question would be for both the Russian and Georgian currencies to be accepted as legal tender, since both currencies are effectively convertible. There would be freedom of establishment for Georgian and Russian banks, and the market would decide on the relative importance of the two currencies. When the excise duty and other fiscal federal arrangements are clarified the choice of currency for the Ossetian budget, presently in roubles, could be reconsidered, depending upon the main sources of budgetary revenues.

South Ossetia would retain detailed management of many micro-economic policy matters, but the degree of autonomy for fiscal and social security competences would be less than for Abkhazia, since South Ossetia is such a small entity and located so centrally in Georgia. However, as in Abkhazia, the main cultural communities would have competences for matters of education, culture and representation of community rights, which would be valid for the whole territory.

Citizenship issues might also be handled in a manner similar to Abkhazia, with two tier identities, Georgian for the international passport and Ossetian for residence identity card (again this would not be ethnic Ossetian, but for all residents of the territory). Also there exists the possibility to acquire Russian citizenship, as an alternative or double nationality.

Nagorno Karabakh

The pre-war population of Nagorno Karabakh (NK) was about 180 000, of which there was a 75% Armenian majority, with an Azeri minority of about 35 000. Since the ceasefire in 1994 there has been significant but still only partial reconstruction of war damage in NK. The economy is now in practice in a state of economic and monetary union with Armenia. The currency used is that of Armenia. The budget is 50% subsidised by Armenia. The land connection is assured by a newly constructed road from the Southern Armenian town of Goris through to the capital town of Stepanakert. The road traveller is hardly aware of the territorial frontiers, leaving Armenia, entering the Armenian-occupied Azeri territory across the Lachin corridor, and on into NK itself. The road, and various new or reconstructed Armenian churches, have been visibly financed by the Armenian diaspora. The local economy has limited possibilities, being a remote, mountainous territory, even if it were no longer blockaded by Azerbaijan to the East.

Negotiations have been underway for years with the so-called Minsk Group [co-chairs, France, Russia, US] to find a political settlement, but this is still elusive. Outlines of the main elements of a settlement are widely discussed (but we have no confidential information from the Minsk Group). There is a larger agenda of issues than in the other cases, which need not be a disadvantage, since there are more negotiation variables, thus:

- NK's status, either as a highly autonomous entity within Azerbaijan, or a confederated state with Azerbaijan, or a common state with Azerbaijan, or a condominium with Armenia and Azerbaijan. This question is discussed in more detail below.
- Return to Azerbaijan of the neighbouring territories occupied by Armenia. This would have to be a categorical part of a settlement, with outright withdrawal of NK-Armenian forces, and reintegration into Azerbaijan.
- There might be some relatively pragmatic adjustments of the frontier between NK and Azerbaijan proper, but it is not useful here to try to speculate on the details.
- Guarantees over the Lachin corridor between NK and Armenia. This might be an area for frontier adjustments, or a demilitarised international zone. But in any case there should be an internationally guaranteed regime to keep open the road from Stepanakert to Goris in south Armenia.
- Guarantees over the two-way corridor/cross-road in the Meghri area on the Armenian-Iranian frontier, so as to allow transport to pass freely and with security both from East-West from Azerbaijan to Nakhichevan, as well as North-South from Armenia to Iran. Given the cross-road nature of this situation, solutions by way of international guaranteed and enforced openness of routes along all these axes would seem to be more advisable, rather than frontier adjustments, which might not satisfy both requirements.
- Provision for refugee return and reconstruction assistance. Return of Azeri populations to the presently occupied territories should be relatively straightforward, with international support both for financing rehabilitation and for security guarantees. These regions have apparently been little settled by Armenians. There would be provision for return of Azeris to parts of NK, as well as to regions of South Armenia. There would also be provisions for Armenian refugee return to Azerbaijan in general, including Baku. Given the circumstances of their departure, many of these refugees would doubtless not wish to return, for example those having settled into new lives in Armenia, Russia or in the West. But still the question would have to be addressed.

The most difficult issue seems to be the status of NK. An earlier common state proposal was rejected by Azerbaijan. It is implausible to suppose that Baku will resume a powerful relationship over NK. That could only now be sought by a new war, which would be disastrous of course, and find Azerbaijan confronting Russia as well as Armenia, NK itself and the international community. The status quo is bad for all parties. Azerbaijan cannot recover its occupied territories and begin to resettle them, and to empty the refugee camps. Armenia and NK remain blockaded by Turkey as well as Azerbaijan.

NK would in any case retain its own government structure, and own constitution.

It would retain some own armed forces, but these would be progressively run down. In any case there would be an international peacekeeping force, under the aegis of the OSCE, underwritten by the major powers for sufficient security guarantees, to guard the frontiers of NK and prevent further armed conflict. The security guarantees would have treaty status.

The external relations of NK would be governed by an agreement with Azerbaijan, according to which Azerbaijan would encompass NK for specified purposes of international representation, including for example UN membership. NK would still have still various external competences. These would include an exceptionally important (of course asymmetric) relationship with Armenia, and relations with the international financial agencies for projects on NK territory.

NK would have competence for immigration and residence policy, beyond the guaranteed right of refugee return.

Citizenship would involve multiple identities as in other cases. Azerbaijan passports would be available for all the NK population, who would also have NK identity papers. But the option to have [and/or] an Armenian passport would exist too. The present regime is unsatisfactory. NK officials travel on Armenian passports, whereas the rest of the population has old Soviet passports or nothing.

Given the present integration de facto with the Armenian economy, the following measures could be envisaged. A suitable regime would be for Armenia and Azerbaijan to have an effective free trade agreement, but it would be better still for there to be a South Caucasus Community free trade area with Georgia as well. In this case problems of reintroducing trade barriers would be avoided. Otherwise NK could have fiscal autonomy. For the currency regime there could be an open market choice of between convertible currencies, and certainly no new NK currency. The Armenian currency would be strongly used as long as the budget were heavily subsidised by Yerevan, but that might change in due course. Economic policy would otherwise be the subject of autonomous NK competences.

5. Russian interests

Here we try to construct a modern view of the Russian interest in cooperating fully in a Stability Pact for the Caucasus along the lines proposed. This might imply new orientations of Russian policy, yet would still be framed within the premise of maximising Russian national interests. It would be consistent with the obvious and uncontroversial: "Russia is itself a Caucasus power and will always have key economic, political and security interests in the whole region".

One stereotypical view is that Russia wishes to have a dominating influence over the whole region of the former Soviet space, preferably exclusively so. Such views may be heard in the Russian political debate. As an example of a South Caucasus perception, an Azeri scholar writes⁹ in August 2000: "Russia is trying to restore its hegemony over its neighbours". As to the means of achieving such a policy, the same author writes: "A weak, unstable, and divided Caucasus is currently in Russia's interests, and Moscow wants to prove to the world community that the nations in this region are not capable of self-rule".

We leave aside for the moment such generalisations, whose validity might be debated. Instead we try to assemble an objective view of Russian interests¹⁰, which would be uncontroversially legitimate according to the letter and spirit of the international organisations of which Russia

⁹ E. Nuriyev, 'Crossroads and Conflict - Security and Foreign Influences in the Caucasus', mimeo., Center for International Studies, Baku, September 2000.

¹⁰ Recent Russian sources on which we have drawn upon include: Л.Вардомский, "Российское Причерноморье: альтернативы развития на пороге XXI века" (L. Vardomski, The Russian Black Sea region: alternatives for development on the threshold of the XXI century), Д. Данилов, «Россия в Большой Европе: стратегия безопасности» (D. Danilov, Russia in the Wider Europe: security strategy), *Современная Европа*, N 2, апрель-июнь 2000г., Институт Европы РАН, Москва; Ю. Дерябин, «Северное измерение» и интересы России (Y. Deriabin, Northern Dimension» and Russia's Interests), *Современная Европа*, N 2, апрель-июнь 2000г., Институт Европы РАН, Москва.

and the South Caucasus countries are all members¹¹. We find ten reasons why a Caucasus Stability Pact could be in Russia's interest:

i/ attraction of resources. South Russia, the North Caucasus autonomies and the South Caucasus states all need inflows of investment and employment creation. Within Russia there is fierce competition for very scarce resources of public budgets and there are indications that the North Caucasus and South Russia have not been doing so well in this competition. In particular Vardomski¹² makes the interesting comment that some other regions of Russia which have been doing better, include those closer to the EU economy and its policies, notably those involved in the "Northern Dimension" policy concept recently developed essentially between the EU and Russia. The argument is that international programmes conducive to strategic stability help the regions concerned to begin to accumulate clusters of public and private investment resources. As soon as such accumulations begin, the regions in question acquire new comparative advantages, which may become strongly entrenched. Such arguments are themselves well established tenets of regional development theory, which should not be lost on the Caucasus region. These are reasons why Russia has an interest in inviting the development of a "Southern Dimension" concept for cooperation with the EU and international agencies.

ii/ strategic transport and communications infrastructures. Currently the East West Silk Road transport and communications axis is being modernised, with ambitious plans to integrate the Central Asia-TransCaucasian-Black Sea corridors. The EU and international financial agencies are supporting these projects, for example through the TRACECA project, and major investments await prepared for execution as soon as the region's conflicts are resolved. Russia has recently, in 1999, begun to advocate the integration of North-South and North Caucasus-Southern Russian axes with the East West axis. This is a well founded argument, since the Russian economy should be well connected not only to the South Caucasus but also the large Turkish and Iranian markets to the South. For this to be done an essential requirement is that the Abkhazian problem be solved, with a political settlement lifting of the blockade, and then renewed investment in road and rail infrastructures down the eastern Black Sea coast. To these would be added fibre-optic telecommunication lines and integrated port and airport facilities. The Caucasus region requires above all efficient multi-modal facilities and problem-free frontier crossings. The North South axes are vital for the economy of South Russia. The Krasnodar, Stavropol and Rostov regions having a population of 12 million and enormous potential for expanded agricultural production. A Stability Pact could open up these possibilities.

iii/ local North-South Caucasus economic interactions. There could be a considerable acceleration of economic growth in the South Caucasus with the aid of deblocking Armenia and Abkhazia and a general boost to the investment climate in a region which had overcome its conflicts, thanks to a Stability Pact. Faster economic growth in the South Caucasus would spill over beneficially into the North Caucasus, offering more demand for trade and commerce. For this transport communications need to be improved, with the Georgian Military Highway needing some repair and modernisation. A general improvement in economic conditions in the North Caucasus is recognised to be essential to dampen and eventually overcome tendencies towards politico-religious radicalism and separatism.

¹¹ Including the Council of Europe, to which Armenia and Azerbaijan are currently acceding.

¹² Л. Вардомский, op. cit.

iv/ opening and development of Black Sea and Caucasus tourism. “Russia has lost all of its fine Black Sea resorts except Sochi ...”, so the conversation goes. But of course one does not have to own a resort to enjoy it. North-West Europeans massively “invade” the Mediterranean coast in the summer. The wonderful Black Sea eastern coast, from Crimea in Ukraine to Sochi in Russia to Trabzon in Turkey through Abkhazia and Adjara in Georgia forms a natural and continuous tourism resource. For the Russian consumer the interest is in having open access to modernised facilities all along this coast. Such consumer preferences would become all the stronger as the Russian economy gets onto a sustained growth path again, as may now be happening. In addition there is linkage to the incomparable mountain tourism potential of the western and central Caucasus, from the Mount Elbrus region of Russia to the Svaneti region of Georgia, which has obvious potential of great importance for the regional economy, as soon as peace, law and order are assured. Of course such developments require settlement of the Abkhazia problem and a good frontier cooperation between Russia and Georgia, such as a Stability Pact would help deliver.

v/ policing for cross border crime and terrorism. Frontier cooperation between Russia, Georgia and Azerbaijan is necessary to control illegal frontier crossings, and in particular to guard against the threat of infiltration by fundamentalist Islam terrorists into the North Caucasus. On the Chechnya-Georgia frontier there has been a substantial reinforcement by the Russian military, and now also of OSCE in monitoring the frontier, which is reportedly closed. Cooperation could be deepened between the frontier services of Russia, Georgia and Azerbaijan, especially if there were created an improved general climate of mutual trust and cooperation built up by a comprehensive Stability Pact. Such matters would be the operational responsibility of the states directly concerned, although OSCE could help also as required.

vi/ military security. Russia has always advocated a more important OSCE role in the European security order, as compared with NATO in particular. The South Caucasus offers now unique opportunities for the operational capacity of OSCE to be raised to a higher level than so far achieved, but as envisaged in the Istanbul Summit conclusions of November 1999. The three ethno-separatist conflicts have to be settled as soon as possible within parameters of unchanged state frontiers. Political agreements will have to be signed and underwritten internationally. UN principles may be invoked, but the operational role in peacekeeping and political monitoring should be for the OSCE. Neither CIS (or Russia) nor NATO have any chance of securing general support for an international mandate. Russia already begins to implement an agreement with Georgia over withdrawal of military bases, which can only be maintained at the pleasure of the host sovereign state. The Russian interest could be to get success for the OSCE to develop its operational capabilities, for the permanent council to give workable mandates to suitable political and military sub-structures, and for the mandated sub-structures to get on with the job in a business-like and credible manner.

vii/ energy sector interests. The Caspian oil and gas resources are again being revised upwards with new discoveries in the sectors of Russia, Kazakhstan and Azerbaijan. Also new pipelines are built or planned, some going through Russia, some not. With the South Caucasus as independent states, there is competition among pipeline routes, which cannot be objected to as a matter of principle, nor as a matter of realistic politics and economics. Everybody likes to enjoy the fruits of monopolistic positions, Russia included, when there is a chance of securing this. However when political parameters and natural resource endowments exclude this, as is now the case in the Caspian-Caucasus region, the question becomes how to do as well as possible in the competition. Within these new parameters there is a premium on issues of legal clarity and political security for investments and contract, together with more subjective matters of reputation of business and political partners. The market share for

Russian routes for pipelines will be helped by improved legal security and reputation, and damaged by the reverse. Attempts to apply political pressure in the market environment entails the risk of being counterproductive, in motivating potential partners more strongly towards alternatives. Already Lukoil has been arguing that the Russian oil industry's growth in the Caspian would be helped by withdrawal of the Russian military, so as to remove the appearance of political pressure, which makes negotiations with Azerbaijan more difficult. Practical steps to improve the international legal environment for the energy sector include overdue conclusion of a Caspian sea-bed treaty, and the new proposal for a Pipeline Transit Protocol to supplement the Energy Charter Treaty, for which the Caspian-Caucasus-Black Sea region could be a first application. It seems that the Transneft pipeline network of Russia favours the transit protocol idea. However Gazprom apparently does not, preferring apparently to keep international law out of Russia's internal pipeline system. Such an argument goes counter to Russia's need to import capital on a very large scale for renewal and expansion of its energy sector, estimated to be around \$ 200 billion. Russia's policy for its oil sector is surely to invest in renewed expansion of production, since its domestic demand is rising again, and the margin for net exports is already quite limited and risks declining to little or nothing. Russia's interests here coincide with those of the EU in seeking expansion of its production given the enormous increase in the oil price, rather than become a member or even associate of OPEC's system of production quotas.

Also Russian electricity and gas supply interests have strong market positions in Armenia and Georgia, but these countries have difficulty in paying their bills. Therefore Russia has here another interest in the South Caucasus states becoming more prosperous.

viii/ developments in Caucasian political and societal models. The Stability Pact idea would see a major experiment in international cooperation to turn the trends, first of all in the South Caucasus, away from conflict towards new solutions for multi-ethnic political structures and for overcoming the difficulties of the post-communist transition. If successful there may emerge some original Caucasian blends by way of socio-politico-economic models of development. These models would combine elements from the modern international world with various Caucasian specificities. While such models cannot be anticipated in advance, the idea should be of interest to the Russian authorities and those of the autonomous entities of the North Caucasus, who have the extremely difficult task of formulating practical political strategies for the Northern Caucasus. Equally important would be the transmission of broad ideas into public opinion. Such learning processes would of course be the complete opposite of the cynical view sometimes heard, that Russia has no interest for the South Caucasus to succeed, since this would encourage the North Caucasus entities to secede. The contrary argument sounds much more plausible, namely that instability, ethnic conflict and violence in the South Caucasus is likely to communicate destabilising influences into the most vulnerable parts of the North Caucasus, such as Dagestan, and to undermine attempts to get a peaceful solution in Chechnya.

ix/ reputation in external relations. Of the above arguments several are highly dependent on the perceptions of Russia's underlying strategy for the region, and in particular the necessary task of building a good reputation as partner of the much smaller states of the region and various international interests. Consistency in policy both over time and between different agencies of government builds reputation. Favourable reputation, while subjective, becomes an enormously important and real asset for the purpose of attracting resources and willingness of parties to enter into contractual relations. Reputation is a key mechanism for winning synergies in the pay-off from individual elements of policy, which individually might be less effective. The Caucasus is a region where Russia could achieve a great improvement in

reputation by joining into a substantive Stability Pact strategy, where the rules of the game were the consensus rules of the interested parties. Unfavourable interpretations of Russian intentions would then come to be seen as the obsessions of paranoiacs and eccentric conspiracy theorists.

x/ advantages from variable geometry. The three South Caucasus states would be G.3. Adding Russia, G.4 is the full Caucasus club. G.5 is the club of Caspian littoral states. G.6 sees G.4 joined by other two global players, EU and US. Russia would like G.4 to be the main forum for the Caucasus, and G.5 for Caspian issues. There is much of importance for G.4 and G.5 to do. But also G.6 is needed to bring together the main concentration of power and resources of the international community (with advocates also for G.7 or 8 to bring in also Turkey and possibly Iran). G.3 will want certainly want the assurance of a G6 or 7/8, indeed because of Russia's uncertain reputation as player in G.4. However Russia would also be a key player in G.6/7/8, with an effective Stability Pact. Russia could then find its G.4. and G.5 partners much more relaxed over using these groups to their full potential. Therefore the Stability Pact construction, using also the international organisations of which Russia is a key member (OSCE, BSEC), would offer serious possibilities for advancing Russia's overall interests in the Caucasus region.

6. Organisation of a Stability Pact

A Caucasus Stability Pact would be quite different to the Balkan Stability Pact. The needs are not the same. First, the conflicts of the Caucasus have still to be resolved, and elements of the Caucasus Stability Pact initiative should directly contribute to the solutions for the conflicts. Second, there is need for a lot of variable geometry, starting with the South Caucasus as the core, but with wider Russian, North Caucasus, Black Sea and Caspian aspects to be brought in. Third, there are features of the Balkan case that are inappropriate, for example the anchorage on EU integration perspectives, the setting up of a substantial international secretariat in Brussels, and reliance on numerous huge conferences of 50 or so states and organisations as the main working method.

There would still need to be lead organisations. At the highest diplomatic level, and especially for security and political aspects, the obvious candidate would be the OSCE. This organisation would be invited to take up a role that would build on its growing experience, yet still innovate significantly. The security and peacekeeping role would require a more streamlined method for the permanent council to mandate sub-structures (groups of key countries, missions in the field) to expedite their tasks. The OSCE might develop the model of a specialised regional subsidiary unit. OSCE would be concerned with all the conflict situations, sponsoring negotiations, legitimising internationally the resulting agreements or treaties, backing them up with suitable mixes of monitoring through to robust peacekeeping and enforcement deployments, and assuring coherence between differentiated solutions. In the case of Abkhazia, a transfer of operational responsibility from the hybrid UN/CIS/Russian regime to OSCE would be organised at a suitable time, allowing the UN to complete and transfer its mandate in an ordered way. Neither CIS nor NATO are politically suited to having the lead role¹³.

¹³ For a critique of the problems of uncertainties of the role of NATO in the region, see: R.Bhatty and R. Bronson, 2000, "NATO's Mixed Signals in the Caucasus and Central Asia", *Survival*, International Institute for Strategic Studies, Autumn.

The three South Caucasus states would initiate a South Caucasus Community (SCC), starting with the most feasible tasks (deblockading, trade facilitation, infrastructural renewal, security cooperation, some institution building), but opening perspectives for a subsequent deepening of integration. A particular feature of the SCC could be arrangements for the participation of the several autonomies of the region (Abkhazia, Adjara, South Ossetia, Nagorno Karabakh, Nakhichevan) alongside the three sovereign states for selected purposes, thus responding to demands for recognition of the political status of the sub-state entities, without recognition of independence.

The wider economic issues could be taken up by the Black Sea Economic Cooperation (BSEC), which would also serve as a forum for pursuing matters of common interest between the two Stability Pact areas, Balkan and Caucasus. Moreover Iran has applied for BSEC membership, and might begin at least with associate status.

However much operational activity might be developed in more compact groups, with variable geometry among Groups of 3, 4, 5, 6, 7, 8:

- G.3 would be the three states forming the South Caucasus Community.
- G.4 would be the full Pan-Caucasus club, and see Russia in dealings with the G.3.
- G.5 would be the Caspian club, with Russia and Azerbaijan and the other littoral states, Kazakhstan, Turkmenistan and Iran.
- G.6 would be G.4 joined by the two other major powers, EU and US.
- G.7 would add Turkey as the further major regional player among OSCE states.
- G.8 would add Iran as the other remaining regional power.

These groups offer ample room for Contact Group type diplomacy to initiate a Stability Pact process, to discuss how best to structure its activity, and for much of the subsequent operational activity. Overall the Caucasus Stability Pact would be a process, not an institution. It would be a coherent and mutually reinforcing use of a set of organisations and relationships. However, as argued earlier, its role would be of systemic importance in sustaining the post-communist transition of states that still have a way to go in establishing solid governance.

7. Conclusions

Following travels in the region and consultations on the basis of the initial CEPS document, our conclusions in summary are:

1/ The *status quo* is highly unsatisfactory for the peoples of the South Caucasus, and sufficient time has elapsed since the wars for settlements now to be reached. Armenia remains substantially blockaded; Azerbaijan has not recuperated any of its territories and nor have any of its refugees been able to return; Georgia has not recuperated territory and has seen only limited refugee return, while the separatist states of Abkhazia and South Ossetia are in very poor shape. The whole region suffers as a matter of reputation. This means limited interest for external investors and discourages also international aid programmes, and keeps going vicious circles of corruption and economic underperformance.

2/ There is an objective case for aiming now at a *comprehensive regional solution* overall for two reasons: (i) the conflicts are linked because parties in each conflict are looking at their counterparts in the other conflicts for useful precedent, (ii) there would be synergetic benefits

for all from settlement of all the conflicts more or less in parallel. In this way the reputation of the region would be more strongly improved for attracting fresh resources, and economic growth would be boosted by trade growth as the whole of the region would be deblocked.

3/ While only the parties concerned can take responsibility for the political settlements to be made, it seems not that difficult to sketch *plausible solutions to the conflicts*, since there are no absolute constraints such as shortage of land, nor ethnic enmities so deep that they cannot be overcome. The material for constructive compromise exists, if negotiators can persuade themselves to look forward to 21st century solutions, based on a lot of interdependence and multiplicity of territorial jurisdictions. A Stability Pact for the Caucasus would embody a comprehensive strategy uniquely tailored for the specificities of the region.

4/ *The three states of the region have to come together, but so do also the three major powers*, which would need to make a unified pro-active effort to encourage solutions to the conflicts and help work out the design of a wider Stability Pact.

5/ *The role of Russia* in the South Caucasus is crucial to securing a Stability Pact, and this requires a fresh articulation of Russian national interests, going way beyond old slogans. Russia would be making a strategic mistake to leave its South Caucasus policy open to mixed interpretations. In particular the role of Russia will be crucial in persuading various sides to the conflicts to settle, rather sit on uncompromising positions because they think they have a protector. Russia's North-west, West and Far-east frontiers are reasonably stable. However the Caucasus and Central Asia contain threats to Russian national security. Of these two regions, the South Caucasus could be stabilised first. This could be helpful for Russia priority task of resolving its serious problems in the North Caucasus, and also in providing a degree of insulation from Central Asian instabilities.

6/ However Russia cannot do this on its own. It has does not have adequate resources available for the task, nor does it have political legitimacy in the South Caucasus for a dominating role. The EU is a natural partner, to join with Russia in stabilising not only the Northern Dimension (North-west Europe) to their borderland relations, but also this Southern Dimension.

7/ The *EU* would also be making a strategic mistake to view the Caucasus as just a small, remote region, so far beyond the horizons of its enlargement process that it warrants little attention. It is evident that the South Caucasus states are not, and cannot for any politically relevant time horizon become EU accession candidates. But they are in the nearest circle of states in the proximity of the EU's future frontiers. These may be borderland states, but in addition to historical-cultural factors they now identify officially with modern European values (Council of Europe membership). It is a region of great significance for the evolution of EU-Russian relations, and for the security and adequacy of energy supplies for the EU economy (current oil market conditions are delivering a shock reminder of the importance of ample diversity of oil and gas supplies, as if this were indeed necessary). Therefore the Caucasus, as a borderland region, should rank among the EU's external policy priorities, and see an upgrade of its diplomatic presence there.

8/ The *US*, as member state of the OSCE and with its resourceful diplomatic presence, will doubtless remain an important actor in the region. However there are political tendencies within the US which would like a less extended and more selectively prioritised global role. This would be compatible with the progressive build-up of a strategic Russian-EU Southern Dimension cooperation. The alternative model of the US and Russia appearing as competitors in the region, with a largely absent EU, is of course much less attractive, but closer to present realities.

9/ For a lead role in a Stability Pact for the Caucasus, the *OSCE* has an obvious political vocation. However the member states would have to address the upgrading of its operational capacities. The slow moving consensual diplomacy of almost 50 member states in Vienna is legendary, and admirable up to a point. But for an operational role in a Stability Pact for the Caucasus there would have to be greater reliance on mandated sub-sets of member states, and variable geometry formats for the Stability Pact as a whole, such as been sketched above. “Contact group” mechanisms have come to serve needs for compact policy making circles, where formal and large scale conferences cannot deliver. A strategic understanding between Russia, EU and US would be a first necessity. Within the OSCE the EU also would have to rationalise its own presence, in a manner suitable for an operational Common Foreign and Security Policy.

10/ The Caucasus needs a fresh, renewed political order. The new order needs a name. To talk of a system of federations and confederations is not adequate. A South Caucasus Community would be a useful initiative, but can only be part of a long-term design. *Stability Pact* could be the name. It would stand actually for a certain type of transitional order, for weak states struggling to find their way in the post-Communist, post-Soviet world, accommodating multi-ethnicity and promoting reconciliation, receiving coherent support and encouragement from the major powers and international organisations. The Stability Pact would not just see settlement of the conflicts, to allow normal life to proceed better, for the injustices suffered by refugees to be undone, and for economic growth to be boosted by the end to blockades. It could also open new political perspectives, to switch to a new paradigm. Then, with better chances of success, society could resume the long road of building civil society, pushing back corruption and criminality and converging on modern political, economic and societal norms.