

## Nagorno-Karabakh – conflict unfreezing

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**The conflict between Armenia and Azerbaijan over Nagorno-Karabakh poses the greatest challenge to the security and stability of the Southern Caucasus. Although a ceasefire has been in place and a peace process under way since 1994, there is growing concern that the threat of the resumption of military action is growing.**

**Proof of that is provided by, for example, the arms race dictated by Azerbaijan and its use of war rhetoric. A major factor, in addition to Azerbaijan's increasing potential and ambitions, which is destabilising the situation concerning Karabakh seems to be the changing geopolitical situation in this region. Although the outbreak of a new war over Nagorno-Karabakh seems unlikely (as this would be risky to all the actors involved) within the next year, if the current trends continue, this will be difficult to avoid in the future. A further increase in the tension, and especially a military conflict (whatever its outcome), will lead to deep changes in the situation in the Southern Caucasus and in the policies of the countries which are active in this region.**

### Nagorno-Karabakh. Background

Nagorno-Karabakh was an autonomous oblast within the Azerbaijan Soviet Socialist Republic, whose population consisted predominantly of Armenian minority, within the borders set by Moscow in 1923. When the USSR was collapsing, the Armenian-Azeri conflict rekindled as a further attempt in the 20<sup>th</sup> century to unite Karabakh and Armenia (1988), which led to anti-Armenian massacres and the war over Nagorno-Karabakh (1991–1994). With the engagement of Soviet and later Russian forces, which played a key role – initially they fought on the side of Azerbaijan only to shift their support to Armenia some time later – the hot phase of the conflict ended as Armenians took control over almost the whole of Nagorno-Karabakh and seven regions in Azerbaijan which surround the enclave ('occupied territories'), as a consequence of which Nagorno-Karabakh had a border with Armenia and Iran<sup>1</sup>. The self-proclaimed Nagorno-Karabakh Republic is functioning in Karabakh and the occupied territories and is unrecognised by the international community, including Armenia. However, in practice it has close political, military and economic bonds with Armenia; Yerevan also represents Karabakh in peace talks.

The ceasefire in 1994 and the peace process initiated at that time have been supervised by the OSCE Minsk Group chaired by Russia, the USA and France. The main issues discussed during the negotiations include: the return of the occupied territories (around Karabakh);

<sup>1</sup> The area of Nagorno-Karabakh is 4,400 km<sup>2</sup>, and with the occupied territories it reaches approximately 12,000 km<sup>2</sup> (14% of the area of Azerbaijan). Around 130,000 Armenians live in Karabakh at present. Around 600,000 Azeris fled from Karabakh and the occupied territories as a consequence of the military action. Around 400,000 Armenians left Azerbaijan as a result of the ethnic conflict.

the future status of Nagorno-Karabakh; the rules for the return of refugees; the status of the 'Lachin corridor' (this provides a connection between Karabakh and Armenia); and safety guarantees for the solutions taken (there are no peacekeeping forces in the conflict area at present) included in the package of the 'Madrid rules' set in 2007. The 17-year peace process has not brought about any real changes in the conflict area.

The conflict over Nagorno-Karabakh is at the same time a frozen Armenian-Azeri ethnic conflict of an internal and local nature and also in fact a conflict between two states (Azerbaijan and Armenia). It needs to be emphasised that it is the symbolic and historical significance of Karabakh for both parties and not its economic potential (natural resources or location) which plays the decisive role in this case, since the area cannot be said to have any economic potential. Furthermore, the unresolved conflict over Karabakh is one of the main causes of instability in the entire Southern Caucasus region and a key tool, especially for Russia, in the geopolitical game in the Southern Caucasus.

### The unfreezing conflict

The relative stability in the conflict area since 1994 has been based on both the sides respecting the ceasefire signed then, on the acceptance of the Minsk Group as a mediator and on the balance of powers which existed at that time between the two parties (relatively equal strength and no sufficient political or military means to break the deadlock) and also the geopolitical situation (the dominant position of Russia).

The ceasefire and the commencement of the talks was a temporarily acceptable but obviously a transient situation for both parties. For Azerbaijan, Karabakh is a symbol of the lack of territorial sovereignty and a key element for building state and national identity

(as one of the cradles of Azeri culture) as well as social consolidation. From Azerbaijan's point of view, it is obvious that the conflict should be resolved in a way which gives it back control of the disputed territories.

Armenians treat Karabakh as one of the main historical centres inhabited by Armenians and, moreover, an embodiment of the key national idea, the struggle for survival in the face of the expanding Turkish element. The victory in the Karabakh war is contemporary Armenia's greatest success,

which has built extremely strong bonds with Karabakh; for example, as a consequence of the Karabakh war veterans assuming power in Yerevan in 1998. Although Armenia (unlike Karabakh itself and a significant part of the diaspora) does not rule out the possible future formal supremacy of Baku over the disputed territories, it definitely will not agree to Azerbaijan's real control of Karabakh, especially in the area of security.

In both cases the determination of the elite and nations to have control over Karabakh and the distrust of the other party seem to be unshaken. The Minsk Group can do almost nothing in this situation. The threat to the *status quo* is posed not so much by the aggressive rhetoric and regular gunfire from both sides, which have been part of the reality there since 1994, but the real change in the balance of power between Armenians and Azeris and a deep change in the geopolitical context, which has been stabilising the situation thus far. Serious signs of these changes appeared in the middle of the past decade and intensified over the past two years, which means that the risk of questioning the present situation is constantly growing.

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### *The growing disproportion of powers*

Armenians are the dominating party in this conflict: they won the war, control the disputed territories and occupy the convenient defence positions, and their armed forces are perfectly trained and brave (until recently the army of the self-proclaimed Nagorno-Karabakh Republic had the reputation of being the strongest in the entire Caucasus). Armenians from Karabakh form an integral part of Armenia's security system. In turn, Armenia is a political and military ally of Russia, a place where Russian troops are stationed and Moscow's only strong foothold, apart from Abkhazia and South Ossetia, in the Southern Caucasus.

However, it must also be considered that Armenia has a clearly smaller demographic (which is constantly being weakened due to emigration) and economic potential than Azerbaijan, and its political position in the region is weakening. Nevertheless, Armenia is still a vital

element in Russia's regional policy, it can influence Russian policy to a minimal extent and is treated as an object rather than partner in relations with Moscow. Armenia, which is isolated by Azerbaijan and Turkey, has no other alternative but to co-operate with Russia. This dependence has become even stronger as Russian firms took control over Armenia's key economic assets. The Russian attempt to become more entrenched in Armenia (2010) showed that Yerevan is increasingly limited: Russia gained permission to extend the lease on its military bases until

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2044, reinstated its commitment to defend Armenia but not Karabakh, while continuing military co-operation with Azerbaijan. Establishing closer political contacts with the EU has brought only minimal benefits to Yerevan, which is due to the lack of foundations for its strategic economic co-operation with the West and also to the unsuccessful brave attempt at normalising relations with Turkey in 2009–2010.

Both the deep-rooted mistrust of Azeris and Turks among Armenians and the lengthy crisis on the internal political scene (including questioning the position of the ruling class originating from Karabakh) are making a peaceful compromise solution less likely and thus are limiting the room for political manoeuvre available to Yerevan.

In contrast to Armenia, Azerbaijan's strength and position are constantly growing. The ceasefire of 1994 was the onset for tidying up the political scene and consolidating power in the hands of Geidar Aliyev and later his son, Ilham. The Aliyevs' power is unquestionable as part of the present system. The stabilisation enabled the implementation of serious investments in the oil and gas sectors and the export of these fuels to Europe bypassing Russia. State budget revenues have been rapidly increasing since 2005, which has been reflected for example in the constantly increasing military budget (Azerbaijan's military budget has grown from US\$135 million in 2003 to US\$3.12 billion in 2011, which accounts for approximately 20% of this country's budget expenses, and is larger than the total state budget of Armenia). Azerbaijan has also gained significance in Europe as a supplier of oil and gas. The planned launch of the Southern Gas Corridor to the EU will make Azerbaijan a partner whose significance is difficult to overestimate. Furthermore, a measurable economic base has been created for a political alliance of Baku and Ankara. Azerbaijan has been able to make Turkey break off the process of normalising relations with Armenia, and is now hoping to force its own preferences upon the EU as regards the shape of the Southern Corridor.

The increasing potential, including the diversification of political and economic contacts, has made it possible for Azerbaijan to significantly strengthen its position in dealings with Russia, which wants to hold hegemony in this region. At present, the only undisputed tool Moscow has to apply pressure on Baku is the frozen conflict in Karabakh.

Azerbaijan is not attempting to conceal that a resolution of the Karabakh conflict is to be a tangible crowning achievement of the increase in its position and potential (which Baku seems to be convinced of); the optimal scenario being a peaceful resolution with the involvement of external players. However, it should be borne in mind that the scenario of regaining Karabakh by military means, were the peace process to be unsuccessful or last too long, is becoming more likely in Baku. In comparison to Azerbaijan, Armenia is seen more and more obviously as a weaker player with no strategic initiative.

### ***Russia's position in the region changes***

Since the collapse of the USSR, each military conflict in the Southern Caucasus has erupted, continued and become frozen with the active and decisive participation of Russia. Domination in the area of security is the main pillar of Moscow's policy in this region, which no one has been able to successfully contest. The Karabakh conflict was also developing under dictation from Russia, and when it froze it offered Russia the strongest position as a mediator within the Minsk Group (Russia is the main host of the meetings, forces the agenda upon the other group members, etc.)<sup>2</sup>. Furthermore, Moscow as Yerevan's ally and the strongest political and military player in the region has a tangible influence on the way the situation around Karabakh develops. This was confirmed during the conflict with Georgia in 2008: Moscow will not accept any unilateral changes in the conflict areas and in the area of security in the Southern Caucasus (and even less so those supported by its geopolitical rivals), and is ready to resort to military measures to defend its interests. Azerbaijan understood this message perfectly because it significantly softened its warlike rhetoric for almost one year starting in August 2008.

The guidelines of the Russian policy in the Southern Caucasus have turned out to be very successful as regards Armenia (aggravating political and economic incapacitation). Meanwhile, Azerbaijan has been consistently getting out of the control this policy is intended to

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impose. The erosion of the recent political domination in this region is also deepening at the expense of geopolitical rivals. Despite the frozen conflict in Karabakh, Azerbaijan has become economically independent of Russia and has strongly increased its political significance capitalising on energy projects (the development

of oil and gas field and transit routes), which fundamentally contradicts Russian interests. In the present situation, a further development of the infrastructure (the Southern Gas Corridor, especially its variant which envisages the construction of the Nabucco and the Trans-Caspian gas pipeline instead of using the existing infrastructure) would mean another strategic defeat to Russia in this region, the complete independence of Azerbaijan and losing ground to Turkey and Europe.

The frozen conflict in Karabakh is fulfilling Russia's hopes to control Azerbaijan only to a limited extent but it is still the most powerful tool Moscow has. If one assumes that Russia will not relinquish its domination in the Southern Caucasus, it is likely to actively participate in each attempt to change the *status quo* in Karabakh, if any is made. It cannot be ruled out that it will feel forced to initiate changes beneficial for itself, should it deem Karabakh no longer an effective political tool and that time is playing to its disadvantage.

<sup>2</sup> The meeting of the presidents of Azerbaijan and Armenia in March 2011 with the chairmen of the OSCE Minsk Group at the airport in Sochi after they had had trilateral talks for a few hours with the president of Russia, Dmitri Medvedev were symptomatic.

### **Changes in the geopolitical situation in the region**

The balance of power in the early 1990s caused Turkey, the USA and the EU, despite their growing ambitions and interests, to be forced to accept Russia's political and military domination in the Southern Caucasus. Open attempts to undermine the dominant position of Russia have been either avoided or unsuccessful. An extreme example was the failure of Georgia's integration with NATO (the war of 2008), and to a lesser extent, Turkey's attempts to mediate the Karabakh process and to be present in this region through the Caucasus Stability and Cooperation Platform in 2008, or the unsuccessful attempt of 'disarming' the Karabakh conflict by normalising Turkish-Armenian relations in 2008–2009.

**The security and stability of this region and especially Azerbaijan are the conditions which need to be met in order for the economic and political interests of external partners to be implemented. Given the scale of the interests, it seems unlikely that Turkey and the West will remain passive if an attempt at upsetting the *status quo* around the conflict by any of the parties is made.**

However, what have proven very successful are long-term actions (especially support for reforms in Georgia after 2003; the cautious but also comprehensive EU Neighbourhood Policy also has great potential) but in the first order activity in the field of energy: the exploration of oil and gas fields, the construction of oil and gas transport routes from Azerbaijan through Georgia and Turkey to Europe. This seems to be the factor which decides on the growth of Azerbaijan's potential and ambitions and at the same time is upsetting

the domination of Russia and the relative balance of power around Karabakh. Moreover, this is also a factor which determines the tangible and strategic economic interests of European corporations, the EU and Turkey most of all.

The security and stability of this region, and especially Azerbaijan (which is directly linked to Karabakh) are the conditions which need to be met in order for the economic and political interests of external partners to be implemented. The *status quo* regarding Karabakh has enabled the implementation of the basic economic interests (and to a lesser extent, political) but it does not give such guarantees for the future (the lack of direct and decisive impact on the parties to this conflict and the peace process). The degree of internationalisation of this conflict does not fit in with the political framework in which it is functioning. Given the scale of the interests, it seems unlikely that Turkey and the West will remain passive if an attempt at upsetting the *status quo* around the conflict by any of the parties is made. In the longer term, the problem will be aggravating.

### **Possible developments: war or peace?**

The changes which have been taking place in the Southern Caucasus since 1994, especially the changes in the balance of power between Azerbaijan and Armenia and the change of the geopolitical situation in the region are causing the model of freezing the Karabakh conflict to fit in less and less with reality and to guarantee a diminishing level of stability.

The most likely scenario in the short-term, i.e. within one year, will be the preservation of the *status quo* based on the negotiation formula used so far. This variant temporarily secures the key current interests and ensures all players room for manoeuvre. Therefore, a major breakthrough in the peace talks seems unlikely: attempts at activating the process initiated by Russia ended up in failure over the past few months; the presidential election in Russia and parliamentary election in Armenia have been scheduled for the first half of 2012, which is not contributing to external activity and impairs the will for compromise;

the USA, the EU and Turkey are focused on their internal situation and on problems in other parts of the world. Although France has been strongly declaring its will to accelerate the peace process (which seems to fit in with both France's active international policy and the electoral campaign of President Nicolas Sarkozy), still Paris is unlikely to have sufficient political potential to make any real progress in the negotiations, especially given Azerbaijan's distrust and tense relations with Turkey.

In this context, a breakthrough in the negotiations, and especially a quick signing of peace accords, appears even less likely. A far-reaching compromise, which neither of the parties (including external players) seem ready to make now, or the creation of a guarantee of security for this region (the parties are unlikely to accept either an exclusive Russian domination or the co-option of other reliable guarantors acceptable to the both sides of the conflict and Russia) are among the conditions which would need to be assumed with this variant.

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A peace accord finalising the conflict in Karabakh seems possible should there be a radical change in Karabakh itself (especially war) or of a clear change in the geopolitical situation.

Maintaining the present trend of an increasing imbalance between Azerbaijan and the Armenians, the lack of progress in peace talks and the progressing change in the geopolitical context all add up to the likelihood of an outbreak of military

conflict in the longer term. Given the present balance of powers, war is an extremely risky variant for both Armenia (preventive war) and Azerbaijan (it is difficult to estimate the real degree of Azerbaijan's military superiority); a lost war poses the risk of internal breakdown and loss of what has been achieved so far. Baku's rational decision to go to war should be based on a guarantee of Russia's friendly neutrality (to be compensated to Moscow with strategic concessions in the energy and military sectors which will recoup its 'loss' of the Armenian card it has been playing thus far), which seems unlikely, given the distrust between the parties. However, an uncontrolled (provoked) and limited increase in tension in the conflict cannot be ruled out and this would result in the active participation of Russia as a mediator. The threat that Baku will decide to launch large-scale military actions will be increasing within the next few years (especially if Turkey's significance grows and Russia becomes weaker in this region). A possible armed conflict would mean not only serious political changes in the entire Southern Caucasus but also would force Russia, Turkey, Iran and the Western countries to seriously revise their respective policies.



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