
Nagorno-Karabakh and the arc of crises on Europe's borders

Amanda Paul and Dennis Sammut

Azerbaijan and Armenia have been locked in a military and diplomatic stalemate over the Nagorno-Karabakh for more than two decades. Karabakh remains the biggest impediment to security, stability and prosperity in the South Caucasus. The 1994 ceasefire has been under severe strain for several years, with almost daily skirmishes across the 'Line of Contact', which separates forces in the conflict zone, and across the international border between them. Ceasefire violations have left hundreds of military and civilian casualties. Peace negotiations under the auspices of the Organisation for Security Cooperation in Europe (OSCE) Minsk Group (MG), of which Russia, France and the US are co-chairs, have been largely deadlocked since 2011. On 19 December 2015, the President of Azerbaijan, Ilham Aliyev and his Armenian counterpart, Serzh Sargsyan, met in Switzerland in an effort to break the impasse. While in public both sides expressed cautious satisfaction with the meeting, it remains unclear if anything concrete was agreed.

The European Union (EU) has positioned itself on the side-lines of the conflict resolution process, allowing the MG co-chairs to take centre stage. The current view within the EU is that while the two sides engage in risky posturing, they are able to continue to "manage and contain" the conflict, therefore it is unlikely to boil over. The Union's unwillingness to take on a larger role is in large part explained by the EU's lack of leverage over Armenia and Azerbaijan, with both countries having snubbed its offer of Association status. A recent review of the European Neighbourhood Policy recognises that protracted conflicts continue to hamper development in the region. It recommends increasing work with partner countries on security sector reform, and conflict prevention. Given that a new war would not only put at risk key energy infrastructure related to the EU's new Southern Gas Corridor (SGC); the resulting humanitarian crisis would also very likely bring a another flow of migrants to Europe at a time when the EU is barely dealing with the Syrian refugee crisis. Hence the EU should be leading with innovative initiatives, using its soft power skills and experience and not simply endorsing a process that often looks moribund.

BACKGROUND

Tens of thousands of Armenian and Azerbaijani troops face each other across the Line of Contact in the Karabakh conflict zone and on the international border. While the ceasefire was largely effective in the early years, the situation has drastically changed in the last five years. The current mechanism for monitoring the ceasefire is ineffective. A tiny group of monitors, led by the personal representative of the OSCE's chairperson-in-office Ambassador Andrzej Kasprzyk, have to notify both sides before any visit. Yet, anecdotal evidence suggests that both sides engage in limited but provocative actions that often escalate into serious incidents. Over the last decade the two sides have engaged in an arms race, acquiring billions of dollars' worth of sophisticated equipment supplied mainly by Russia. While Armenia receives Russian arms at a subsidised cost because of its membership of the Collective Security Treaty Organisation (CSTO), Russia sells arms to Azerbaijan at market prices as part of an ongoing 'charm offensive' to lure Baku away from deeper cooperation with the West. Both sides have also been testing their command and control capabilities via large-scale military exercises.

Both Armenia and Azerbaijan claim to endorse the so-called Madrid Principles, the roadmap for a solution put forward by the MG co-chairs. However, the devil is in the detail, and positions remain far apart on several issues,

not least on the future status of the Nagorno-Karabakh region. Finding a solution will involve a climb-down from the maximalist positions that both leaderships have maintained for the past twenty years. Yet, while the talks have been inconclusive, the mediators insist that the existence of active negotiations has helped avoid serious escalation.

Armenia is by far the more vocal supporter of the Minsk Process, which it perceives as helping to prolong and protect the *status quo*. Azerbaijan, while often critical of the Minsk process and its failure to deliver, has also remained engaged with it. However, Baku has called for a reconfiguration of the Group and for other members to play a more active role. Ultimately the Minsk Process allows Armenia and Azerbaijan to determine the speed and format of the negotiations, as well as locking in Russia, the US and France in a process that offers few surprises. Because it has broad support from the international community, it leaves little space for other initiatives.

STATE OF PLAY

The Karabakh conflict has been increasingly affected by the shifting geopolitics of the region and historical competition between regional powers. Today it risks joining the arc of crises that now stretches from Ukraine, to Syria and North Africa, although many of those involved in the conflict resolution process remain positive that Karabakh can be insulated from the chaos in neighbouring regions. They point out that the MG co-chairs continue to work together despite the cooling of relations between the West and Russia. On Ukraine, despite both sides initially being diametrically opposed, with Azerbaijan supporting Ukraine's territorial integrity and Armenia supporting Russia's position in a March 2014 UNGA vote, they have since played down their respective positions. However, this is only part of the story. Ukraine's Maidan protests and the subsequent overthrow of President Yanukovich brought about a hardening of both sides' positions on Karabakh. Developments in Ukraine made leaders in Baku and Yerevan paranoid that the West was set on regime change throughout the former Soviet space. This paranoia has been actively fueled by Russia. Fearing a repeat scenario at home, both leaderships, using different tactics, have tried to contain opposition forces. Playing the Karabakh/war card is another way in which the two leaderships have tried to maintain internal cohesion. In both countries, Karabakh remains the most important rallying cry when sacrifices are demanded, or when the population's attention needs to be distracted away from other issues. Both sides have upped their confrontational rhetoric.

The shooting down of a Russian plane over the Turkey-Syria border by the Turkish armed forces on 24 November 2015 was a further negative development. Both Russia and Turkey have long-standing interests in the South Caucasus, and are enmeshed in a complicated set of relations with both Armenia and Azerbaijan. It will require sanguinity and wisdom on all sides to ensure the region is not embroiled in a Turkish-Russian dispute. While it seems unlikely that Turkey and Russia would fight a war through their regional proxies, it cannot be excluded completely as long as the Karabakh conflict remains unresolved.

With both countries facing serious economic challenges on their own, neither could financially afford a long war. For Azerbaijan the oil bonanza of the last decade ended in 2015 with the continuing collapse of oil prices, resulting in a sharp devaluation of the national currency, the Manat. While Armenia has only been indirectly affected by oil prices, its continued dependence on remittances from Russia places the country in a difficult situation.

Russia's new assertiveness

In the South Caucasus, Russia simultaneously plays the role of peacemaker, troublemaker, arms supplier, regional policeman, economic hegemon, and protector of "traditional values". Moscow has all the tools to wage a hybrid war similar, but even more sophisticated, than the one it is fighting in eastern Ukraine, as its range of soft and hard power tools is even greater. Russia's actions in Ukraine and more recently in Syria, where it has used its Caspian flotilla to fire missiles at anti-Assad forces, may have been militarily expedient, but have also contributed to Russia's macho image in the region.

Of the three co-Chairs, Russia is particularly active. Foreign Minister, Sergei Lavrov, recently put forward a number of ideas on how to take the negotiations forward. Although no details are available it is understood that the ideas have been endorsed by France and the US. However, the resolution of the conflict is not an end in itself for Russia but one of the many tools it holds as a means of reasserting its hegemony over the region. Moscow's quandary is that it cannot play its full role if it is seen as supporting Armenia against Azerbaijan, or *vice versa*. This was Russia's mistake in 1989-1994 when Moscow openly backed Armenia, for which it paid the price of seeing Azerbaijan slip from its sphere of influence at a crucial moment – when the future of its energy resources was being decided. Hence, President Vladimir Putin has embarked on an intricate balancing act. It entails a charm offensive towards Baku, with Moscow seeking to broaden co-operation in numerous areas. While Russia would

like Azerbaijan to join the Eurasian Economic Union (EEU), this is unlikely to happen due to Baku's Western energy interests, its strong ties to Turkey, and deep distrust from society and many of Azerbaijan's political elite who fear it would end Baku's independent foreign policy. The Turkey-Russia crisis also puts Azerbaijan in an uncomfortable position. Despite Baku's close ties with Turkey, Azerbaijan has also opted for good ties with Russia as part of a strategy to drive a wedge between Armenia and its most important supporter, and as an insurance against perceived western support for opposition forces.

Given that Moscow calls Yerevan a strategic partner, Russia's wooing of Baku has annoyed many in Armenia, and has given Russia's critics in the country the best argument against becoming over-dependent on Russian support. Yet, because Russia's grip on Armenia is now so strong, with Moscow not only responsible for Armenia's security but also having a large stake in the country's economy, there is little Yerevan can do without a major shift in policy, for which it is not ready.

The unacknowledged crisis in the EU relations with Armenia and Azerbaijan

While the EU is the biggest trade partner of both Armenia and Azerbaijan, political relations between the Union and the two states have been in difficulty since 2013, although few in the EU's institutions are ready to admit this. The EU offered both countries the prospect of Association Agreements (AA) and a Deep and Comprehensive Free Trade Area (DCFTA). Baku, after initially beginning negotiations on an AA, insisted on a 'Strategic Partnership Agreement' with energy co-operation at its core instead, maintaining that Azerbaijan should be recognised as a special strategic partner because of the role that it plays in helping shore up the EU's energy security. A scoping exercise is currently underway.

Relations are not without tensions. While the EU has now made a shift from of its previous position of not clearly supporting Azerbaijan's territorial integrity, Baku remains unhappy over the EU's approach towards the resolution of Karabakh, which it considers to be inconsistent with the EU's position on other regional conflicts. While Azerbaijan welcomed the importance given to the concept of territorial integrity and sovereignty in the Eastern Partnership (EaP) Riga Declaration of May 2015, Baku was unhappy that whilst the Russian occupation of Crimea was stressed, the EU refused to similarly highlight Armenia's occupation of Nagorno-Karabakh and other Azerbaijani territory. Relations deteriorated after criticism of Azerbaijan's 2013 presidential election, and a subsequent clampdown on dissident voices. Aliyev did not participate in the May 2015 Riga EaP Summit. Relations deteriorated further following a particularly tough European Parliament resolution adopted on 10 September 2015, criticising the Azerbaijani government's human rights record, which triggered an emotional and angry reaction in Baku. Azerbaijan ended its participation in EURONEST – the parliamentary dimension of the EaP. The resolution, while raising a number of important issues, was unfortunate in its drafting, and reflects the continued absence of a holistic and coordinated EU strategy in the region. However, harsh political and economic realities in Azerbaijan, which have led to protests against the government, could trigger a reset in relations, with the planned visit of Federica Mogherini, EU Foreign Policy Chief, at the end of February 2016 a possible turning point.

Armenia initially welcomed the offer of the AA and DCFTA and spent four years in negotiations, only for Sargsyan to make a U-turn on 3 September 2013, abandoning the process and announcing his intention to join the EEU instead. Russia had signalled its unease over Armenia's westward drift by increasing gas prices and completing a huge arms deal with Azerbaijan. The Armenian government feared that by further pursuing European integration it could jeopardise the country's security. However, the decision to join the EEU intensified Armenia's dependence on Russia, threatening its national security and sovereignty, and was met with anger by many in the country. It also left Armenia with a narrower set of strategic options, and damaged Yerevan's credibility and reliability in the eyes of the EU. But after a pause for reflection, the EU adopted a more pragmatic position, and invited Armenia to identify those elements of the AA which were still of interest, and more pertinently those which are compatible with the EEU. In October 2015, the EU's Foreign Affairs Council authorised the European Commission and the High Representative to open negotiations on a new agreement. Some EU officials and experts, seeking to give a positive gloss to a messy situation, have called this a "model" for balancing relations between the EU and Russia. However, given Russia's omnipresence in every sphere of Armenia's political and economic life, this is an exaggeration, and the new agreement will be largely symbolic.

The EU's main approach to resolving the Karabakh conflict was through democratization and regional cooperation, the policy it followed in the Western Balkans. Yet, with neither country embracing the AA, this proved difficult. Furthermore, interest in genuine political reform from both states has been very limited. The EU's Special Representative for the South Caucasus and crisis in Georgia (EUSR) maintains a channel of communication on the conflict with the leaders of the two countries, shuttling between Baku and Yerevan several times a year. Beyond this the EU has played no direct role in the peace process, preferring to stay on the periphery

while supporting the efforts of the MG co-chairs, having a balanced position between Azerbaijan and Armenia, and providing erratically funding for confidence building and peace mediation efforts as part of its European Partnership for the Peaceful Settlement of the Conflict over Nagorno-Karabakh (EPNK). Because the EU has shied away from taking on the role of a reliable counterweight to Russia's hard security influence in the region, being by and large complacent in the face of Russian efforts to shut it out, it is often viewed as a secondary actor at best. Yet despite these setbacks, the EU remains committed to forging good relations with its neighbours, and sees this as a cornerstone of its soft power capacity. Baku and Yerevan are vulnerable to the accusation that they have given in to Russian pressure, and of the desire of their new, youngish elites to see their countries have closer relations with the West and be less dependent on Russia. This situation offers a small opportunity for the EU to turn a crisis into an opportunity. This will require a very skilled nuanced approach, with timely interventions when windows of opportunity present themselves.

PROSPECTS

The assumption that neither Armenia nor Azerbaijan wants to reignite war and that Russia can prevent them from doing so even if they wanted to is an oversimplification of a more complex reality. All the ingredients for renewed hostilities exist and a variety of different circumstances can result in unpredictable developments that can easily trigger renewed large scale hostilities. Only a durable peace arrangement will address this risk. In the short term, the peace process needs to be reenergised with a focus on achieving peace and not simply managing the conflict. Strong and well-coordinated international support, along with a review of the current arrangements within the MG is necessary to break the current deadlock. Because of its proximity to the conflict, its influence in institutions such as the OSCE, and its direct and indirect interests in the region, the EU is the only international player that can trigger a new approach, and which has enough reasons to do so. Nobody questions that another war in the South Caucasus would be greatly harmful to the EU and its interests, yet ensuring that such a war does not break out is going to require a much more focused and engaged EU commitment and a move away from the current arm's length approach.

In the medium to long term, a durable solution of the Karabakh problem can be achieved through a deeper transformational process based on modernisation, good governance and prosperity. It is the EU that is best placed to accompany Armenia and Azerbaijan on this journey. Its record in Georgia will be watched carefully, and used as a gauge of its success or failure. In the first place, the EU needs to bring clarity to its relations with Armenia and Azerbaijan. The contractual relationships that are on the horizon need to be brought to a speedy conclusion. The objectives at this point cannot be anything but modest, and the wish of the governments of both states not to proceed with the AAs should be respected. Yet these new contractual arrangements are no substitute, and should not be presented as such to the large sections of the population of both countries who genuinely want closer relations with Europe, and are disappointed by the decisions of their respective governments. The door for Armenia and Azerbaijan to have closer relations with the EU in the future should remain open.

EU grandstanding on the global stage, including the recently launched debate on a future global strategy, will sound very hollow if the EU is unable to play a role in influencing events in its immediate neighbourhood. The Karabakh conflict should no longer be perceived as a small local difficulty on Russia's periphery, but as a dangerous source of instability and potential crisis in the EU's immediate neighbourhood. The EU response must therefore be strategic, holistic, properly resourced, and timely.

Amanda Paul is Senior Policy Analyst at the European Policy Centre (EPC) and Dennis Sammut is a Member of the EPC's Advisory Council and the Director of LINKS.

European Policy Centre ■ 14-16 rue du Trône, 1000 Brussels, Belgium

Tel: +32 (0)2 231 03 40 ■ Fax: +32 (0)2 231 07 04 ■ Email: info@epc.eu ■ Twitter: [@epc_eu](https://twitter.com/epc_eu) ■ Website: www.epc.eu



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