

# The South Caucasus: *Challenges, threats and changes*

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## Abstract

*Article is analyze Russian, EU, U.S. and NATO's role which they believe have the right to cooperate actively with the South Caucasian states on all issues, including military cooperation and regional security. Moreover, the author examines this development on the focusing, the joint declaration signed in May 2002 by presidents George W. Bush and Vladimir Putin, the parties agreed they had common interests in maintaining stability, sovereignty and territorial integrity of all Central Asian and South Caucasian states. They would cooperate towards the solution of regional conflicts, particularly in Abkhazia and Nagorno-Karabakh, as well as the Transnistrian conflict in Moldova. Author agreed that yet, Russia is very biased against the individual attempts of the Ukraine, Georgia, Moldova and even Belarus to find more reliable partners in the political, economic and military spheres.*

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Russia nowadays is trying to find its place in a changed world. On the one hand, the Russian leadership declares its commitment to democratic values and market economy. On the other hand, political freedom is restricted, all nation-wide TV channels are under total government control and recently amended law about non-governmental organizations sets strict limitations on their activities. The elections of governors of federal units have been abandoned, propaganda aimed against representatives of national minorities is widespread, and the violence and murder of journalists and human rights activists have become commonplace. Finally, the recent elections of the State Duma and Moscow Duma make it obvious that Russia is rapidly returning to a single-party system.

Such a problematic situation in internal policy directly influences Russian foreign policy. Russia admits that the EU, U.S. and NATO have the right to cooperate actively with the South Caucasian states on all issues, including military cooperation and regional security. Moreover, in the joint declaration signed in May 2002 by presidents George W. Bush and Vladimir Putin, the parties agreed they had common interests in maintaining stability, sovereignty and territorial integrity of all Central Asian and South Caucasian states. They would cooperate towards the solution of regional

conflicts, particularly in Abkhazia and Nagorno-Karabakh, as well as the Transnistrian conflict in Moldova. Yet, Russia is very biased against the individual attempts of the Ukraine, Georgia, Moldova and even Belarus to find more reliable partners in the political, economic and military spheres.

### **The ‘Reset’ of U.S.-Russian Relations**

It is hard to predict how the ‘reset’ of U.S.-Russia relations will play out, as Russia’s policy remains inflexible and unpredictable. In November 2009, Russia adopted a new law, permitting the Russian president, with endorsement of the Federal Council, to send troops abroad for military operations, as well as for the protection of Russian citizens. It may also secure maritime routes while engaging in the struggle against piracy. Naturally Russia’s neighbors are worried. We cannot rule out the possibility of new military conflicts in the post-Soviet area that would raise tensions in Russia’s relations with the West. Russia’s cooperation with the West is still ongoing to some extent, however. One of the results of the July 2007 meeting of the American and Russian presidents was the adoption of joint actions in the sphere of nuclear energy and non-proliferation, as well as anti-terrorism.

## The Russo-Georgian war in August 2008

In all likelihood, the South Caucasus was the most problematic region for Russia, in the post-Soviet area, and that led to the wide-scale military operation against Georgia in 2008. Three levels of conflict should be specified: Georgia's conflict with Koikoity's puppet regime in South Ossetia; the conflict between Russia and Georgia, resulting in active combat outside South Ossetia from the 8th of August on; and the West's (U.S.' and NATO's) global confrontation with Russia.

What were Russia's main goals in that war? First, the attempt was made to create a mini-USSR by means of a merger with Belarus, Abkhazia, South Ossetia and Transdnistria. That was the rationale for Russia's recognition of the independence of Abkhazia and South Ossetia and her attempt to persuade other countries to do likewise. Nauru's example is significant in this respect: Nauru recognized Abkhazia on 15 December 2009, in exchange for a \$50 million credit provided by Russia. Russia has since established military bases in Abkhazia and South Ossetia as well as building administrative border infrastructure.

A second goal was to suspend communication programs in the East-

West direction. That was the reason for the bombing of the sea port in Poti. An attempt was also made to remove Mikhail Saakashvili from his post in order to demonstrate to the world who really decides about the sharing of power in the South Caucasus. The disruption of operations in various pipelines - the Baku-Tbilisi-Ezrurum, the Baku-Tbilisi-Ceyhan

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and Baku-Tbilisi-Supsa - during the combat and for a rather long time afterwards, was also to show that Georgia was not a reliable transit country. Even a short-term occupation of Poti endangered all economic and energy projects with American and European involvement. That also made questionable existing and planned projects for the transportation of oil and gas from the Caspian Sea to Europe by circumventing Russia.

Probably, that was the time when the U.S. and EU began looking for alter-

native transportation routes. The absence of an alternative to Georgian communications, as well as attempts to promote European integration of the South Caucasus only by working with Georgia, made that country a target for the adversaries of democratization and European integration of the Caucasus. The Russo-Georgian war consequently demonstrated that the region needed an alternative, and such a situation provided more serious arguments in favor of normalizing Armenian-Turkish relations. Opening the border between Armenia and Turkey could provide such an alternative.

### **Turkey's New Foreign Policy**

Parallel to the processes mentioned, Turkey's foreign policy has been significantly changing since its Islamic party, Justice and Development, came to power in 2002. In 2003, the Turkish parliament denied the U.S. the possibility of a military operation against Saddam Hussein's regime from Turkish territory. In fact, the formula, 'what's good for the U.S. in the Middle East, South Caucasus and Central Asia, is good for Turkey as well,' became obsolete.

Acknowledging Russia's and Iran's interests in the South Caucasus, Turkey subsequently agreed with Russia to build the South Stream gas pipeline from Russia to Italy, which pro-

vides energy security to the EU by lessening its reliance on Russia. Turkey also launched a dialogue with Syria, concluded agreements on gas supply with Iran and recognized the independence of Kosovo. In autumn 2009, the Deputy to the Minister of Foreign Affairs of Turkey visited Abkhazia.

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On August 12, 2008, during the Russo-Georgian War, Turkish Prime Minister Recep Tayyip Erdogan visited Moscow and proposed the initiative for a Caucasus Platform of Stability and Cooperation that might be joined by Armenia, Azerbaijan and Georgia. The idea was met positively in Russia. Azerbaijan's President, Ilham Aliyev, also supported it in principle. Armenian President Serzh Sargsyan too, appreciated the Turkish initiative as a step towards creating a positive atmosphere in the region.

Hopefully, there also was and is an understanding, particularly in Ankara, than any initiative aimed at the stabilization and development of cooperation in the South Caucasus may not be realistic without the participation of the U.S., EU and NATO. In recent years, all three have realized a number of projects with the Caucasian countries in military, technical, transport, communications, and energy spheres. So, it will be problematic in the South Caucasus for influence to be shared only between Russia and Turkey. In Georgia especially, the authorities and political elite connect their country's future only with the West, and there are no significant political forces oriented to other values and security systems.

From the point of view of normalizing Armenian-Turkish relations, Turkey's new foreign policy approach has serious potential. Her attempts to play a more important role in the region are not compatible with keeping the border with Armenia closed. That explains why when Serzh Sargsyan became President of Armenia in February 2008, his Turkish counterpart was one of the first to congratulate him. Sargsyan responded by inviting Turkey's President Abdullah Gul to the Armenia-Turkey football game held on September 6, 2008.

## **The Armenian-Turkish Dialogue and its Consequences for the South Caucasus**

Clearly, one of the results of the August 2008 Russo-Georgian crisis, was that it showed how vulnerable countries of the region were to outside challenges and threats. The Russo-Georgian war broke many economic ties in the South Caucasus. In particular, the Armenian economy suffered greatly, owing to its dependency on Georgia as a transit country for trade with Russia and European countries. According to the data published by the Armenian government, during the five days of fighting the amount of trade was eight times smaller than usual.

Turkey and Azerbaijan also faced some troubles, as the Baku-Tbilisi-Supsa and Baku-Tbilisi-Ceyhan oil pipelines, and Baku-Tbilisi-Erzurum gas pipeline, became temporarily inactive. Moreover, almost all economic and transportation projects connecting Azerbaijan, Georgia, and Turkey were temporarily suspended. It became clear that Armenia could be useful in that situation if it was not isolated from the pipelines. The non-functioning of the Georgian railway might also be partly compensated by the existing railway between Kars in Turkey and Gyumri in Armenia, which has been out of operation since 1993. Thus, the numerous problems

that existed between Armenia and Turkey came to be considered less important by the national elites and societies of two countries than their cooperation.

The initiatives that followed, such as partial abandonment of the preconditions for normalization of relations with Armenia, were very logical. In addition, Turkey attempted to play a more active role in the Nagorno-Karabakh conflict resolution process, because Russia's recognition of the independence of Abkhazia and South Ossetia naturally disturbed Turkish leaders. So, during a press conference in Brussels on 16 September 2008, Turkey's Minister of Foreign Affairs stated that a trilateral format with participation by Armenia, Azerbaijan and Turkey might facilitate solution of the conflict.

All these initiatives resulted in the signing of the Armenian-Turkish protocols on 10 October 2009 – the latter establishing diplomatic relations and cooperative development. The protocols have been submitted to the parliaments of the two countries for ratification. Both sides are now waiting for each other to make the first move.

There is also a significant risk, however, that ratification of the protocols may be postponed by the Turkish parliament because of lack of progress in the negotiations on the Nago-

rno-Karabakh issue. While Ankara hopes to stimulate the Nagorno-Karabakh conflict-resolution process, ratification and rapprochement are objective processes and will succeed only as the protocols match the interests of both Armenia and Turkey.

Turkey understands the need to reach stable peace and cooperation in the South Caucasus, especially facing the challenges and threats that emerged after the Russo-Georgian war. That is why she recognizes the need to take into account Russia's interests and accepted Moscow's offer to participate in the South Stream project. During the trilateral meeting of Putin, Erdogan and Berlusconi in October 2009, Ankara agreed to let Russia build the South Stream project, which is a rival for Nabucco, a proposed pipeline to carry gas across Europe to Austria.

In Ankara, there is also an understanding that not only the U.S. and EU are interested in opening of the border with Armenia. So, Turkey's support of Azerbaijan on the Nagorno-Karabakh issue will not ultimately hinder protocol ratification. It may be supposed that all mentioned factors will eventually result in ratification of the protocols by the Turkish parliament. There is no doubt that Armenian parliament will ratify the protocols.

Of course, keeping in mind Azerbaijan's pressure on Turkey and the level of independence of the Turkish parliament, Prime Minister Erdogan met with President Obama in 2009 and stated that Ankara would normalize relations with Armenia only after substantial progress in the Nagorno-Karabakh resolution process. Turkey's attitude here has been known for a long time, but in the last two years it has changed quite significantly. Not so long ago, Turkey demanded the withdrawal of Armenian armed units from five regions bordering Nagorno-Karabakh. Now there is just a demand for progress in the negotiations within the framework of OSCE Minsk Group. The shift in Turkey's approach is seemingly stipulated by the logic of the Armenian-Turkish dialogue and the need to establish relations without preconditions, as well as by the new situation in the South Caucasus after the Russo-Georgian war.

Opening of the border and normalization of relations may soon result in Armenia's re-orientation towards the West and favorable conditions for trilateral regional cooperation in the South Caucasus. Solution of the regional conflicts may be viewed in the context of simultaneous European and Euro-Atlantic integration of Armenia, Azerbaijan and Georgia, as the role of state borders may diminish and it may be easier to compro-

mise. That is why Georgia and Azerbaijan should also be interested in Armenian-Turkish rapprochement. The opinion of the EU Special Representative for the South Caucasus, Peter Semneby, is significant. In November 2009, Mr. Semneby praised the progress in Armenian-Turkish negotiations, stating that opening of the border would be the first step towards solution of the present abnormal situation in which the three longest borders in the South Caucasus are closed – borders between Armenia and Turkey, Armenia and Azerbaijan and Russia and Georgia. Moreover, this situation is the principal obstacle for regional development. Then, Semneby referred to the protocol ratification process, stating that in his opinion, it would suit Azerbaijan's interests as well, because Azerbaijan should be interested in the opening of the borders, since the Russo-Georgian war underlined how vulnerable are South Caucasian states.

The main regional actors – the U.S., EU and Russia – have reached a consensus about Armenian-Turkish rapprochement. For the U.S. and EU, Armenian-Turkish reconciliation is a crucial task that may secure the functioning of all regional transport and communication projects. For the U.S. it is also important to let Armenia choose more freely between the West and Russia. Russia also has considered Armenian-Turkish rapproche-

ment positively. Russia too is surely interested in opening of the border, since it would lessen Armenia's dependence on Georgia. Besides, Russian planes have been flying to Yerevan via Turkish air corridors for a rather long time.

Russian Minister of Foreign Affairs Sergei Lavrov stated particularly, that Russia would be ready to support the process by implementing projects in cooperation with Armenia and Turkey, primarily in such spheres as production of electricity, transport and communication. He further noted that Russia's Inter RAO EES company has been exporting electricity from Armenia to Turkey and that the Russian Railway company might resume regular communication between Armenia and Turkey via the Dogukapi-Akhuryan border checkpoint. Progress in Armenian-Turkish relations will likely lead to a new reality in the South Caucasus. Thus, it is crucially important for Armenian-Turkish authorities to demonstrate the political will for successful conclusion of the process, including ratification of the protocols.

### **Possible unfavorable developments in Armenian-Turkish relations**

The process of Armenian-Turkish relations normalization may face difficulties because the two peoples have a troubled history and have been iso-

lated from each other for 90 years. They cannot reach full mutual understanding and reconciliation easily. Thus, it is important to separate normalization of relations between two states, which must be based on a pragmatic approach, from reconciliation that may take some decades.

There is some hope in Ankara that progress in the Nagorno-Karabakh conflict resolution process may be reached soon, as ratification of the protocols now depends on that. However, as both parties have been postponing ratification, they should consider several arguments. First, losing time may give Armenian, Turkish and foreign political forces opposed to the protocols and to the normalization of Armenian-Turkish relations more time and additional chances to reach their goals. Indeed, when the Constitutional Court of Armenia ruled on 12 January 2010 that the protocols were in accordance with its Constitution, it also noted that the protocols might not be explained or applied in such ways that the tenets of the Constitution or Article 11 of the Declaration of Independence could be violated. The latter asserts that, "the Republic of Armenia supports the process of international recognition of the Armenian genocide committed in the Ottoman Empire and Western Armenia in 1915."

Obviously, the Court made such res-

ervations under the influence of political forces opposing normalization of Armenian-Turkish relations. Then those reservations provoked criticism of the Ministry of Foreign Affairs of Turkey, which interpreted the reservations as preconditions and declared on 19 January that the decision “makes the need to discuss the protocols questionable and impedes reaching of the main goal of the protocols.” Armenia’s Minister of Foreign Affairs replied that he hoped Turkey was not concealing an attempt to set preconditions and to postpone ratification of the protocols. Such mutual dissatisfaction certainly does not contribute to ratification of the protocols and the normalization process.

Second, Turkey should take into consideration the new reality in the South Caucasus. Shifts in her foreign policy have already resulted in changes of attitudes in Turkey’s traditional partners. For instance, Turkey’s rapprochement with Iran and Syria disappoints Israel and the U.S., so recognition of the 1915 genocide may become possible. During the official visit of Prime Minister Erdogan to the U.S. in November 2009, he was told that if the Armenian-Turkish protocols might not be ratified before April 2010, the U.S. administration would be unable to prevent recognition of the genocide by the U.S. Congress.

Turkey should also pay attention to Vladimir Putin’s statement made in January 2010, about the need to separate the Armenian-Turkish relations normalization process from the Nagorno-Karabakh issue. If the normalization process is suspended, that will contradict the interests of both Armenian and Turkish people. It would be better if Armenia and Turkey ratified the protocols without preconditions and continued to solve the issues of mutual interest bilaterally, without third countries acting as mediators.

### **Nagorno-Karabakh, the OSCE Minsk Group**

The OSCE Minsk Group was formed in 1992, with a mission to negotiate a solution of the Nagorno-Karabakh issue. The importance of that framework for problem resolution may hardly be overestimated. The Minsk

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Group brought together all attempts towards solution of the conflict made by the international community and proposed several options for conflict resolution. The principles made public by the Minsk Group co-chairs on

22 June 2006, concerning the options for conflict resolution, marked a new stage of the negotiation process, since they provided for a referendum in Nagorno-Karabakh. In fact, the new proposals took into account nations' right for self-determination. Later, these principles were amended and in November 2007 were labeled the 'Madrid principles.'

***“Since the Russo-Georgian war of 2008, Russia has been trying to play a more active role in the Nagorno-Karabakh conflict resolution process. ”***

The presidents of Armenia and Azerbaijan agreed to continue the negotiations based on the Madrid principles. Its main tenet is that conflict settlement should be based on the principles of territorial integrity, a nation's right for self-determination and solution of the conflict without use of force. In order to implement the principles, it was proposed to mix 'step-by-step' and 'package' approaches to conflict resolution. It is supposed that Armenian armed forces will be withdrawn from five regions bordering Nagorno-Karabakh, while special conditions will be established for the Kelbajar and Lachin regions. Security guarantees will be provided and international peacekeeping forces will be deployed. Refugees and internally displaced persons will return and all transport and communication routes will be made operational. Provisional

status and, at a later stage, the permanent status of Nagorno-Karabakh, will be determined by a plebiscite.

Russia and the U.S. appear to have reached a certain consensus on the issue: both do not consider fast resolution of the Nagorno-Karabakh conflict possible. The differences in motivation are crucial here. Russia does not want to solve the issue quickly because it may lose its last leverage for influencing Azerbaijan. The U.S., in turn, does not see objective reasons for solving the conflict in a short-term perspective, particularly because Armenia and Azerbaijan have totally opposite approaches to two principal issues: withdrawal of troops from regions bordering Nagorno-Karabakh and the time needed for organizing a plebiscite in Nagorno-Karabakh. However, despite serious disagreement between the Armenian and Azerbaijani sides, the possibility of concluding an agreement on general principles of resolution in the next few months should not be excluded based on the Madrid principles. If an agreement is achieved, it will be viewed as progress and that may be enough to reach ratification of the protocols in Turkey. Since the Russo-Georgian war of 2008, Russia has been trying to play a more active role in the Nagorno-Karabakh conflict resolution process. To reconfirm its influence on the developments in the South Caucasus and to show to the international community its ability to solve con-

flicts without use of force, Russia initiated a meeting near Moscow between the President Dmitri Medvedev and the presidents of Armenia and Azerbaijan. Russia's initiative was substantial, and during the meeting on November 2, 2008, the three presidents signed the so-called Maindorf Declaration.

The Minsk Group was mentioned several times in the Maindorf Declaration as the main framework for conflict resolution, and in Article 5 of the declaration it was stated that the parties give importance to confidence-building measures. It demonstrates that the parties understand the need to prepare two societies for a compromise. Remarkably, that was the first document signed by presidents of Armenia and Azerbaijan since the 1994 cease-fire agreement (Bishkek Protocol).

Here some points about an issue influencing the conflict resolution process in the post-Soviet area – the Kosovo precedent – may be made. Apparently, after recognition of Kosovo's independence and subsequent recognitions of the independence of Abkhazia and South Ossetia by Russia, the demands of the people of Karabakh have been supplemented by examples from contemporary international practice.

In recent years several new states have emerged, for instance, Montenegro in 2006. But the Montenegrin

case does not suit Nagorno-Karabakh, Abkhazia, South Ossetia and Transdnistria, because Montenegro had been a full member of the federation, equal to Serbia. It is also very important that Serbia recognized the Montenegrin referendum as legitimate and recognized Montenegro's independence. The Kosovo issue is different. Before the conflict, Kosovo had been just an autonomous republic within Serbia (like Nagorno-Karabakh, Abkhazia and South Ossetia within Azerbaijan and Georgia), and Serbian authorities had not recognized the referendum results. Nonetheless, the international community, particularly Western states, recognized the independence of Kosovo. Therefore, Kosovo's independence, gained by means of a referendum on its territory and recognized by the international community, set a serious precedent for Nagorno-Karabakh, Abkhazia, South Ossetia and Transdnistria.

### **Armenia's Dependence in the Energy Sphere**

Russia owns almost 80% of Armenian capacities for electricity production. The Sevan-Hrazdan bloc of hydroelectric power plants was transferred to Russia as part of repayment of the state debt. The Hrazdan thermal power plant (the largest in the South Caucasus, with capacity of 1100 MW) was sold to Russian RAO EES. In April 2006, the Armenian government also sold to Russian gas monopoly Gazprom the fifth, unfin-

ished unit of the Hrazdan thermal power plant (with capacity of 300 MW).

Armenian authorities have taken some steps in search of alternative sources of energy and transit opportunities. In March 2007, construction of 115 kilometer, Iran-Armenia gas pipeline, with a diameter of 700 millimeters was launched during a dual country ceremony. Money provided by a loan from Japan was used for construction of a new unit of Yerevan thermal power plant. The Meghri hydroelectric plant construction was also launched on the River Arax in cooperation with Iran; it is planned to build one plant in Armenia and another in Iran, with capacity of 140 MW each. A program of small hydroelectric plants is being actively developed.

It should be noted that according to the contract, Armenia should pay for gas received from Iran by supplying electricity to Iran. For that purpose, the third, high-voltage electricity-transferring communication line is being constructed, with a projected capacity of 400 MW. The new line will provide an opportunity to supply electricity to or from Iran from the CIS states via Armenia.

The 'gas for electricity' program may be launched soon, when the fifth unit of Hrazdan power plant is launched. Presently, Chinese specialists construct that unit by a contract with the

ArmRusgazprom company, a Gazprom subsidiary. If relations with Turkey are normalized, there will be an opportunity to access the electricity markets of Turkey and the Nakhichevan autonomous republic, which also suits Azerbaijan's interests. Potentially, electricity produced in Armenia may be sold to Georgia, Iran, Russia and Turkey.

Presently, Russia is the main supplier of fuel to Armenia, supplying natural gas and nuclear fuel for the Armenian Nuclear Power Plant (ANPP). Oil products are imported to Armenia from Russia, Iran, Bulgaria, Romania, as well as from Middle Eastern countries.

Nuclear energy is the backbone of Armenian electricity production. The first unit of the ANPP was launched in 1976, and the second – in 1980. In April 1989, following the devastating earthquake of December 1988, the plant was shut down over security concerns. The second unit with a VVER-440 reactor with capacity of 400 MW, was re-launched in November 1995 and has been producing about 30-40% of electricity generated in Armenia; the first unit remains under conservation. By estimates of international experts, the ANPP may function securely until 2016, when it will exhaust its technical resources. ANPP was transferred to financial management of RAO EES in September 2003.

It is clear that Armenia needs to build another nuclear power plant, because alternative means of electricity production may not compensate for the amount of electricity produced by the ANPP and provide energy security for Armenia. Recently, Armenian authorities declared their intention to launch construction of the third unit of ANPP. In October 2009 a joint Armenian-Russian company was established for this purpose. The third nuclear unit is a business project, and several international companies are interested in investment possibilities. An open joint-stock company will be established, with 20% of shares belonging to the state, and 80% sold to private investors. The construction may cost between 4 or 5 billion dollars. Since the countries neighboring Armenia face shortages of electricity, it is important that Armenia is the only country in the region that may not just cover its own need in electricity but produce it for export as well.

As we can see, Armenia has been attempting to modernize its electricity production capacities and to find alternative sources of energy supply. However, if we take into account that Russian companies own the Sevan-Hrazdan bloc of hydroelectric power plants and the Hrazdan thermal power plant and controls the ANPP, it is clear that Armenia's electricity production capacities are extremely dependent on one foreign state, whose actions are not always transparent.

## **Alternative Sources of Energy and Transit Routes from the East to the West**

Plans for construction of other pipelines also exist. The Nabucco project may transport gas from Azerbaijan, Kazakhstan, Turkmenistan and possibly from Iran. Nabucco should be constructed in Azerbaijan, Georgia and Turkey and then reach Europe, up to Austria. If Nabucco passes via Bulgaria and Romania, it will also be capable of supplying gas to Moldova and the Ukraine. Nabucco's importance will be even larger if a trans-Caspian pipeline from Turkmenistan to Azerbaijan is constructed. If Iran agrees to export gas to Europe, Armenia may also get some perspective for inclusion in energy projects as a transit country.

The U.S. and the EU have been actively lobbying in favor of Nabucco in order to weaken Gazprom's monopoly and diversify gas supplies for Europe. That project has a hopeful outlook because Turkmenistan, having the fifth largest reserve of gas in the world, will not be satisfied with a Russian transit route only. The absence of alternatives caused serious financial losses in 2009, when Russia stopped buying gas from Turkmenistan using the global economic crisis as a pretext.

The Russo-Georgian war in August 2008, and Russian pipeline projects such as South Stream, resulted in

changes in American and European energy policies, particularly because the feasibility of construction of a trans-Caspian pipeline could be questioned. So, actors interested in the Nabucco project started considering possibilities to include Iran (i.e. to transfer gas from Turkmenistan to the South Caucasus by circumventing the Caspian Sea from the South) and/or Armenia (either by constructing a pipeline between Armenia and Turkey or by connecting the Iran-Armenia pipeline with Baku-Tbilisi-Erzurum).

The U.S. and EU, having contributed greatly to normalization of Armenian-Turkish relations, want to make Armenia a transit country by including it in Nabucco. So, the Baku-Tbilisi-Erzurum pipeline may not be fully loaded only with gas produced in Azerbaijan; gas produced in the Central Asia may be delivered via Armenia and Iran.

Realization of Nabucco with Armenia's participation may result in a European-Russian energy consensus. This suggestion is supplemented by Turkey's agreement to let the South Stream, Nabucco competitor, pass via its waters. Probably, if it is decided not to build a pipeline crossing the Black Sea, the most critical political dispute between the interested parties may be reduced.

The EU and Russia have serious disagreements on the Energy Charter

Treaty and the project to modernize the Ukrainian gas transit network. There are other problems as well, so the energy sphere remains the most politicized in EU-Russia relations. Normalization of Armenian-Turkish relations, and including Armenia in energy transport projects, may contribute to greater cooperation between EU and Russia. All the above-mentioned factors demonstrate the dynamics of developments in the South Caucasus, and how the interests of large states and influential international organizations interact. For a rather long time, the South Caucasus has been becoming increasingly more important in international affairs because of the actions of Azerbaijan and Georgia. However, the process of Armenian-Turkish reconciliation included Armenia in the regional processes as well.

### **Armenia's Main Priorities in Foreign Policy**

Is Armenia ready to face new challenges and threats now? What priorities should Armenia adopt to make regional cooperation in the South Caucasus possible? Some of the most critical issues require well-calculated, sometimes non-standard actions. It may be suggested that Armenia should take the following steps in the near future: Declare its readiness to negotiate with Azerbaijan and Georgia about a future joint security system for the South Caucasus and abandon its policy of full affiliation with

the Collective Security Treaty Organization (CSTO) only, which creates dividing lines in the region and imposes a long term Russian base in Armenia without rent or compensation for expenses.

Armenia should also continue steps towards integration with European and Euro-Atlantic structures and fulfill all obligations taken under the NATO IPAP, ENP Action Plan and the EU Eastern Partnership. It should cooperate with the Council of Europe and OSCE to implement reforms. It should also extend bilateral military cooperation with the U.S. and prevent militarization of the region through international mechanisms such as the Treaty on Conventional Armed Forces in Europe, and negotiations with Azerbaijan and Georgia. It should demonstrate a readiness to organize an international tender for construction of the third unit of the Armenian Nuclear Power Plant (ANPP), and promote possible joint realization of that project with Georgia.

We can also work towards making the Iran-Armenia pipeline capable for transit purposes by connecting it to Georgia and Turkey, and declare Armenia's interest in participation in the Nabucco project so that the pipeline might pass via Armenia. We can abandon the practice of transferring the largest energy capacities to one state. We can support Turkey's accession to the EU and we can con-

tinue development of bilateral contacts between representatives of Armenian and Turkish civic activists, academics and youth to develop mutual trust.

Armenia should also declare its readiness to sign a general agreement with Azerbaijan that may be based on the Madrid principles. As mentioned earlier, a discussion can also be initiated of the Ahtisaari Plan provided for Kosovo, some elements of which may help resolve the Nagorno-Karabakh conflict.

These are some of the steps that Armenia should make in the immediate future. Certainly, such initiatives will require reciprocal actions of the neighboring states. Meanwhile, Armenia, based on a number of factors including relations with the West and neighboring states, will be faced with choosing a set of values and of political and economic measures that influence state policy in the best interests of Armenia and the Caucasus region.