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**Prospects For Regional Cooperation on NATO's South
Eastern Border
Developing a Turkish-Russian Cooperation in South
Caucasus**

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INTRODUCTION

Prospects For Regional Cooperation on NATO's South Eastern Border Developing a Turkish-Russian Cooperation in the South Caucasus

Executive summary

The study is focusing on the Turkish-Caucasian border. This particular analytical framework is intentionally avoiding the classical grids of researches conducted on the South Caucasus. The research along and across the Turkey's border with her Eastern neighbours, namely Georgia, Azerbaijan and the Autonomous Republic of Nakhitchevan (Azerbaijan) is aiming at highlighting linkages between on-going dynamics, and shed light to the historical, geographical and economic connections between Anatolia and the Caucasus.

This research on the Turkish-Caucasian borderlands, integrated into a Turkish-Russian perspective, is carried out within a North-South axis . The Turkish-Caucasian border had been the traditional frontline between Turkey and Russia : these borderlands at the edges of the Russian and Ottoman Empires had been most of the time battlefields. Indeed, borders are lines, walls, barriers or hedges that designate the limits of a given property or domain. By their nature, they divide and exclude. More often than not they follow lines of past confrontation, indicating an earlier military balance or stalemate. Turkey's Caucasian border was part of the Iron Curtain during the Cold War and has become NATO's South Eastern border after the end of the bipolar system. The break-up of the Soviet Union had far-reaching consequences on Turkey's close neighbourhood. Turkey discovered in her vicinity a new world that had been separated by an "*Oriental iron curtain*" for 70 years. Turkey, along with Norway, was one of the two flanking states of NATO that shared a land border with the USSR. The former Turkish-Soviet stretches over 619 km.

However, it is also possible to view borders as links between countries through economic or human exchanges. Crossborder regionalism has flourished in the past two decades, beginning in the heartlands along the western border of Germany, and has taken news steps in the 1990s in response to the opening of the Iron Curtain.

This research, by analyzing dynamics in progress at the borderlands, is looking at possibilities for applying a cross-border cooperation pattern to NATO's South Eastern border.

A special attention is paid to Armenia and Georgia, located on the borderland, and historically taken into a Turkish-Russian stranglehold. Currently, both countries are affected by their cross-border relations with their big neighbors, Turkey and Russia. The state of Turkish-Armenian and Russian-Georgian relations are identified as the two major knots that have contributed to the fragmentation of the South Caucasus and freezing of conflicts.

The analysis of the new pattern of the Turkish-Russian relations reveals the positive impact on bilateral political relations of a pragmatic approach based on business initiative. The Caucasus region had historically suffered from being a grey area of confrontation in the managed rivalry between Turkey and Russia. This paper is based on the hypothesis that the current Turkish-Russian rapprochement could affect positively the region, and is looking therefore to willingness and ways to transfer the model of economic cooperation between Russia and Turkey that verges on interdependence to South Caucasus. Bridging Turkey to Russia through the Caucasus calls for the need to untie the Armenian-Turkish and Georgian-Russian knots that affect physical communications and fuel mistrust and fear. Since Turkey and Russia don't have anymore a shared border, a Turkish-Russian cooperation in South Caucasus can be developed only with the active participation of the Republics of the South Caucasus.

Methodology

The historical depth and geographical reality are very much valued. Micro-level analysis carried out on both sides of the border are alternating with national level studies based on facts as well as perceptions. A special attention is paid to linkage between economics and security and to economic and pragmatic approaches being developed in the region. The economic and business orientated data in this paper has mainly been accrued from fact-finding missions in Turkey and the Caucasus. First-hand information has been solicited predominantly from professionals in logistics, a sector directly affected by conflict situations. This collaboration allowed us to follow existing trade routes in and out of the region. The analysis is based mainly on profiles. The intention was never to provide an all-encompassing picture. In-depth interviews with private entrepreneurs were designed to extract an understanding of the perceptions and regional visions of those involved in economic transactions, with a focus on how individual strategies interact with broader ones. The research also used the commercial and personal networks of these private entrepreneurs.

Priority is given to monographs and the precise description of trade routes, a methodology that allows us to refer to 'on-the-ground' dynamics and the socio-economic realities of the region, rather than to immerse ourselves in abstract discourse and political argument.

Some findings are based on the author's personal experience. As well as being an analyst, the author has been involved in the activities of the Turkish-Armenian Business Development Council (TABDC) and has been working since 2003 within the Economy and Conflict Research Group of South Caucasus (ECRG) set up by the London based international NGO International Alert. During her research, the author was based in Georgia, and has been extensively traveling to Armenia and along and across the Turkish-Caucasian borderlands.

Traveling along and across the Turkish-Caucasian border

In the early 1990s, the days of Turkey sharing a land border with the USSR ended. With the dissolution of the Soviet Union and the independence of the Caucasian states, Turkey had to deal with new neighbours. Turkey shares a 276 km long border with Georgia, 325 km long border with Armenia and a 18 km long border with Azerbaijan, the Autonomous Republic of Nakhichevan.

Border posts impacted tremendously on regional politics. The closure of its only border crossing with Armenia in 1993 and the opening of new border posts with Georgia and Nakhichevan are the most significant events in the early 1990s.

Turkey 'discovered' her new neighbour, Georgia, with the opening of Sarp/Sarpi border gate in 1988, and the opening of a second gate at Türkgözü at Posof/Vale in 1994. The opening of Dilucu crossing in 1993 created links between Iğdir and the Azeri enclave of Nakhichevan. In the meantime, the Turkish-Armenian border was sealed in the context of an escalation of the Nagorno-Karabagh conflict. After the official closure of Dogu Kapi/Akhourian in 1993, direct land communications with Armenia were severed and a proposal to open a second gate at Alican/Makara, near Iğdir, was postponed.

Currently three border crossings are enabling Turkey's communication with its South Caucasian neighbours, two on its border with Georgia and one on its border with Nakhichevan. The opening of Sarp/Sarpi has been a harbinger of the end of the Cold War. This border zone, perceived as one of the most sensitive external border of the Soviet Union was gathering a high military concentration. The opening of Dilucu border post was also a long-awaited event. For the first time, Turks and Azeris have been in direct contact. Irony of

fate, the end of the Cold War led to the closure of the official border crossing between Turkey and the Soviet Union, located on the Turkish-Armenian border, between the cities of Kars and Gyumri, linked by a railway.

The Turkish-Caucasian border stretches over 619 km. It is running from Black Sea to Dilucu, the easternmost point of Turkey. The village Sarp/Sarpi, split into two by the Turkish-Georgian border, is located a few kilometers from Hopa, a Turkish Black Sea port. Batumi, the capital of the Autonomous Republic of Adjara is at 15 km distance from the border crossing. Gogno is the first Georgian village after Sarpi. The Russian military base is located on the road connecting the border post to Batumi.

The border runs southwards and crosses a very mountainous zone. It is impossible to travel along the border at the Georgian side, the 130 km long road connecting Adjara and the Samtskhe-Javakheti is unfit for driving. Trip from Batumi to Akhaltsikhe lasts almost 10 hours. One has to travel to Kutaisi, take to road to Tbilisi, and finally the Akhaltsikhe direction at Khashuri. At the Turkish side, Artvin and Ardahan are the major cities on the road to the second Turkish-Georgian border crossing. The natural beauty of the region is overwhelming. Artvin, located at the top of a hill, is among the greenest part of Turkey. One can even find some humanly untouched areas. The area is environment sensitive place, the work of the TEMA foundation, an ecologist Turkish NGO, chaired by Mr Nihat Gökyigit, CEO of the Tekfen company and co-chairman of GEOC had an concrete impact. Mr Gökyigit is from Artvin and has Georgian origins. Some ethnic Georgian communities are living in this area, sprinkled with old Georgian churches.

The Artvin-Savsat-Ardahan-Posof road runs through mountainous passes. The highest pick is at 2600 km. Posof-Vale border post, located at 80 km from the Turkish city of Ardahan and 30 km from Akhaltsike the capital of the Samtskhe-Javakheti region, had a limited economic impact: the Ilgar pass on the Turkish side and the poor condition of the road between Vale and Akhaltsike on the Georgian side acted as a deterrent. This region is crossed by the BTC pipeline. The linkage between the Turkish and Georgian parts was done at Türközü level, on Posof-Vale. The pumping station is located on the road from Ardahan to Posof.

The third border crossing between Georgia and Turkey is to be open near the Cildir lake, at Karsakhi level on the Georgian side, very close to the Armenian border. The opening of the Karsakhi-Cildir/Aktas border crossing will place Akhalkalaki at one hour distance from Kars, respectively at 35 km and 70 km distance from the post. Akhalkalaki is the center of Javakheti and is the spot of the second Russian military base in Georgia.

The 325 km long Turkish-Armenian border starts at the level of the Cildir lake and extends till Dilucu, near Iğdir, the intersection point with Nakhitchevan. The last province on the Turkish side is Kars. The city, historically known as *Serhat Kars*, lost its status of border city and became one of the easternmost provinces in Turkey in 1993 when direct land communications with Armenia were severed and Dogukapi/Akhourian gate, the official border post between Turkey and the Soviet Union was sealed. The border town of Akyaka, which is also the last station on the Orient Express across Anatolia, borders on an Armenian village. The last train station on the Turkish side is situated at Akyaka at 13 km from the Armenian border. The last village is called Kalkankale. Akhourian station is at 10-15 km from the Armenian city of Gyumri. The Arpaçay river separates Armenia and Turkey, and is particularly visible in the valley of the old city of Ani at ground zero from the border within the military zone. The area is open to tourism, and Turkish government has recently eliminated special regulation normally applied to border zone. One is struck by the stone mine situated in the Armenian border zone, exploited despite the proven harm done to the historical site of Ani.

The Turkish-Armenian border runs southwards following the Aras river. The road between Kars and Iğdir runs parallel to the border and is stretching through the Turkish and the Armenian military areas. Between Digor and Tuzluca, the path is going very close to Armenian villages, just on the opposite shore of the small river. On the border, communication and mutual aid between Turkish and Armenian villagers is the norm: Armenian villagers regularly cross even at night to return cattle that have escaped across the border from Turkey. Closer to Iğdir, come into sight on the left side Mont Ararat and the right side Yerevan. Incidentally, one can easily distinguish Metzamor, nuclear plant. The Alican / Magara border crossing, once open, will allow a direct communication between the Armenian capital and Iğdir. The border crossing with Armenia is at 35 km from the center of Iğdir while the border post with Nakhitchevan is at 85 km away.

The road after the city of Iğdir, ends at Dilucu. The etymological meaning of '*Dilucu*' is '*tip of the tongue*' and is the easternmost spot in Turkey, bordering three countries, Armenia, Azerbaijan and Iran. The Turkish-Caucasian reaches at its very ends the Turkish-Iranian border.

The study at the cross-border interactions on the NATO's border will highlight daily contacts and interactions been carrying on between local actors at both side of the borders. The analysis will therefore focus on some particular spot defined by open or closed border posts. The first case-study is dealing with the Sarp/Sarpi border crossing and interactions

between Turkish Black Sea coast and the Autonomous Republic of Adjara. The second case-study underscores the importance of the development of cross-border cooperation between Kars, Ardahan and Samtskhe-Javaketi, and especially Akhalkalaki. The Cildir-Aktas / Karsakhi border post will have an importance in that perspective. The third case study is assessing the benefits of the opening of the Turkish-Armenian border both for Kars, Iğdir and by extension Eastern Anatolia. A special attention is paid to past and potential cross border interactions between Kars and Gyumri linked by a railway connection. Batumi, Akhalkalaki and Gyumri are the spot of the Russian military bases. The fourth and last case study is dealing with interactions with Iğdir and Nakhitchevan, and aims at bringing some perspectives from the severely isolated autonomous republic cut physically from mainland Azerbaijan, and sharing a 18 km long border with Turkey.

PART I

The Turkish-Caucasian Border

1. The Traditional Frontline between Turkey and Russia

A. The Caucasian battlefields : History of the Turkish-Russian wars on the Caucasian border

It is accepted that the diplomatic relations between the two countries began with the formal request by Czar Ivan the 3rd to send a diplomatic delegation to Istanbul in 1492. Turkey recognized the USSR in 1920 and the Soviet Union was the first Great Power that recognized the Government of Ankara during the Turkish War of Liberation.

Before becoming the frontier between the republic of Turkey and USSR in 1921, the Transcaucasus had been the contact zone between the Ottoman and the Russian empires. This contact was all the more violent because the two empires had fought more than traded over decades. Transcaucasus, standing out as a gray area between two rival political entities, had been the area of confrontation acting as a buffer zone¹. Turkey and Russia fought eight wars between the two centuries from the XVII century through the early XX century and had for slightly less than two centuries a common border in the Transcaucasus and had been struggling for domination. This struggle was a continuing march of glory from 1768 through 1878 for Russia. Indeed for most of the XVIII century, the Ottoman Empire's main adversary had been Austria and its main ally France, this pattern was radically altered in the 1770's by Russia's expansion in the Black Sea as a result of which Russia replaced Austria as the most immediate threat.

The Russian advance into the Caucasus

The Russian advance into the Caucasus can be explained as the natural result of the advance of the Princes of Muscovy against the Golden Horde which led to the capture of Kazan in 1552 and Astrakhan in 1554. The need to protect conquests already made and to

¹ Price, Philips, "Where Russia and Turkey Meet; Eastern Anatolia, Kars and Ardahan", The Manchester Guardian, 14/10/47, "There have been 16 Russo-Turkish wars in history and most of them have involved some military operations on the Asiatic front of Eastern Anatolia and the Caucasus. Hence the importance of this high plateau and watershed where the Euphrates and Tigris rise and other rivers meander into the Caspian."

secure trade routes kept drawing the Russians further on. This movement was only occasionally the result of consciously articulated strategic calculations by the people who participated in it. A major component of it in its earlier stages was the steady expansion of Cossak power and numbers in regions beyond the frontiers.

As they advanced southward, the Russians faced unavoidable confrontation with two long powerful empires which had dominated the Middle East since the 16th century, the Ottoman and the Persian. Territories under the Ottoman suzerainty in the Caucasus were vaguely defined at their outer edges. The Russians succeeded in driving the Persians from the Caucasus more rapidly and decisively than they were able to do with the Ottomans. A series of decisive Russian victories leading first to the Treaty of Gulistan in 1813 and culminating in the Treaty of Turkmençay in 1828 established the border where it has remained ever since, splitting Azerbaijan and leaving the historic Armenian centres, Erevan and Echmiadzin, under Russian control.

The Ottoman Empire was not only a Asian power, but since the 14th century had been deeply involved in the power politics of Europe as well, and the desire of the European powers to prevent Russia from overwhelming and obliterating it was an important factor in its survival. Politically, developments in the Balkans often affected the course of events in the Caucasus throughout the 19th century.

Early confrontation of the Black Sea stage

After the defeat by Russia in the war of 1768 – 1774, the Ottomans were forced to sign the treaty of Kuçuk Kaynarca of 1774, which gave Russia a foothold on the Northern shores of the Black Sea and allowed Russia navigation rights in the Black Sea as well as what was interpreted as a right of protection over Ottoman subjects of the Orthodox faith. The Ottoman Empire was forced to surrender claims of sovereignty over both the Crimea and the Kabarda. The treaty was ambiguous about the status of the Black Sea coast, which included both Circassian and Georgian lands. Meanwhile in 1769-70, general Todleben had brought the first organized Russian military force through the Daryal Pass and met the Georgian King Irakli II who ruled the two eastern Georgian kingdoms of Karthli and Kakheti. This expedition marked the beginning of Russians involvement in the affairs of the Transcaucasus. In 1783 by the Treaty of Georgievsk, Irakli accepted Russian protection. In this same year Russia annexed the Crimea and large numbers of Crimeans began to emigrate to the Ottoman Empire. Open war broke out between the Ottoman and the Russian empires again in 1787 and lasted until

1791. There was heavy fighting between Russian and Turkish forces over the fortress of Anapa at the northern end of the Circassian coast. The Russians succeeded in capturing it in 1790 after defeating a large Turkish force which had invaded the Kuban. During the same year, Russian advances against the Ottoman territories in the Balkans disturbed Britain and Prussia. The Treaty of Jassy of 1792 returned Anapa to Ottoman control. The Ottoman empire was drawn again into open war against Russia in 1807. As a result, after temporary losses on the Caucasian front, Ottoman control over Anapa, Poti and Akhalkalaki in western Georgia was confirmed in the Treaty of Bucharest.

The frontier : 1828-29

Since classical times the population of this borderland has been mixed. Until the Ottoman conquest in the 15th century the Georgians held a fortified towns and castles running west and north east from Tortum and Oltu to Ardahan and Akhaltzikhe. Kars and Ani on the Arpaçay were city states successively ruled by princes of Armenian, Arab, Kurdish, Georgian and Turkish blood. But the rich downland, stretching between the few towns with their commanding citadels, early became the grazing grounds of nomad Turkish tribes who remained a vigorous fighting population dangerous to their settled neighbours.

The Turks held a strategic frontier which was almost perfect. The fortress of Batumi, backed by steep wooded hills, covered the coast and was one of a line of fortified posts, extending from Trabzon to Anapa. The citadel of Akhaltzikhe with its warlike population defended the valley of Kura at the entry to the Borjom defile, where the strong point of Atskhur was also in Turkish hands. To the south of the Cildir-Akbaba massif, Kars covered the main route across the Arpacay from Aleksandropol and Erevan. Southward again of the massif of Alacadag, the steep ravine of the Aras was impassable to large bodies of troops, and the line of the Agri dag protected the right of the Turkish forces deployed along the frontier².

² Allen, W.E.D.; Muratoff, Paul; Caucasian Battlefields: A History of the Wars on the Turco-Caucasian Border, 1828-1921; Cambridge, Cambridge University Press, 1953

General Paskevich's campaign

Russia was aiming at the expulsion of the Turks from the Caucasian coast including the fortresses of Anapa, Poti and Batumi, and the conquest of the pasalik of Akhaltzikhe to establish a satisfactory military frontier.

Paskevich directed his main operation against Kars, the Russian army crossed the frontier river Arpacay. A movement from Kars on Akhaltzikhe by way of Ardahan might not have been without danger. Paskevich took the decision of leading his army across the upland tracks from Kars to Akhalkalaki by the high col across the Akbaba dag overlooking the eastern shore of the lake of Cildir. Kars and the fortresses of the pasalik of Akhaltzikhe were conquered; Yerevan and Aleksandropol were the principal bases of the Russian army.

Erzurum conquered, Paskevich intended to secure Trabzon as an essential sea base for further operations against Sivas and Central Anatolia. The existence of considerable irregular forces in the mountains belt of the Pontic Alps and Acaristan protected the two Turkish ports of Batumi and Trabzon and prevented Paskevich from establishing direct sea communication between the Russian Black Sea ports and the army in Asia Minor³.

The frontier resettled

The terms of the Treaty of Andrianople governed by wider issues of European politics were moderate. On the Caucasian frontier, the Russians only retained the strong places of Akhaltzikhe, Akhalkalaki and Atskhur. The whole of the pasalik of Erzurum, Bayazit and Kars were restored to the Turks with the south-west part of the pasalik of Akhaltzikhe including Ardahan and the sources of the Kura. In Guria, not only Batumi but also Kabuleti remained to the Turks. Circassian territories south of Anapa saw no significant action, but in the Treaty of Adrianople in 1829 Turkey agreed to give up all positions and claims on the Circassian coast in return for restoration of Kars and Batumi. The Ottoman had weakened their claim to suzerainty over Circassia, but the Ottoman merchants were still interested in trade.

³ Allen, W.E.D.; Muratoff, Paul; Caucasian Battlefields: A History of the Wars on the Turco-Caucasian Border, 1828-1921; Cambridge, Cambridge University Press, 1953

Crimean War : Black Sea at the expense of the Caucasus?

Turks concentrating sizeable forces on the Caucasus frontier and were developing plans for a general Caucasian offensive which would have included Allied landings on the coast and offensives from Batum, Ardahan and Kars. They argued that the Muslim population along the entire coast and in western Georgia could be dependent upon to rise. The ultimate objective was to occupy Tiflis. However the primary objective of France and Great Britain was the elimination of Russian naval power in the Black Sea. British and French governments made a direct attack on Russian territory in the Crimea and destroy the basis of Russian naval power in the Black Sea. The failure to take advantage of the opportunity the Crimean war offered to reverse Russia's absorption of the Caucasus had further consequences. The Allied had to choose between concentrating their main effort in the Crimea or in the Caucasus and reasons of high policy imposed the Crimean alternative.

The Treaty of Paris: Confirmation of the 1829 Caucasian frontier and demilitarization of the Black Sea

The Crimea scene of so much dramatic fighting on both sides was returned intact. The Black Sea was demilitarized. Thus excluding Russia from a military presence in the Mediterranean, this was important gain for Turkey, especially since in the Caucasus the frontier was reconfirmed where it had been since the Treaty of Andrianople. Russian and Turkish gains and losses in nearly three years of fighting had simply balanced each other out. The fact that in the treaty which concluded the war, the situation on the Caucasus front was returned to the status quo ante bellum underscores the absence of agreed objectives in the Caucasus throughout the conflict. From the viewpoint of grand strategy, actions in the Caucasus were undertaken to affect the course of the war elsewhere.

The Black Sea was neutralized and the Russian and Ottoman governments agreed not to maintain naval bases nor any considerable naval forces on those waters. This condition introduced on the initiative of Great Britain, clearly favoured the Turks and the protection of the Turkish Black Sea coast. The Russian Black Sea fleet ceased to exist and Sevastopol and Nikolayev were reduced to the status of commercial ports. The treaty substantially improved the security of Turkish territories in Asia. In 1871, Prince Gorchakov took advantage of the general disturbance of the European balance of power, following the fall of the second empire to call a conference which met to agree to the abolition of the naval clauses of the Paris treaty.

The frontier: 1877-78

In 1877 war broke again between the Ottoman and the Russian empires. The Caucasian front was equally important to the Turks. They found thousand of Circassians, Abkhaz and other Caucasian ready to take arms. Muslim Georgians, known as Ajars, inhabiting the coastal region north of Batumi (which up till this time had remained in Turkish possession), revolted and joined the Turks in April 1877.

The treaty of Berlin was signed on 13 July, 1878. It had confirmed substantial changes in the military geography of the Russo-Turkish frontier. The Russians had acquired Batumi and despite all the declaration in London and St Petersburg made during the period of the Berlin Congress, providing for the neutralization of Batumi as a free port, the Russians after a few years delay, began to establish there a naval station protected by fortifications.

To the south of Batumi, the new frontier had been traced along the line running parallel to the lower Coruh. Oltu became a Russian town. The difficult mountain country of the Pontic Alps through which the Coruh cuts a deep ravine to the sea, was deemed to give sufficient protection in depth to the port of Batumi.

The railway was soon extended from Poti to Batumi and two important military roads connected Batumi, first with the Borjom defile via the Acharisdzqali and Akhaltziskhe and secondly, via Artvin-Ardanuch-Ardahan with Kars. From Akhaltzike, another military road was constructed up the Kura valley through Ardahan to Merdernik, whence it forked to Kars and Oltu. These roads connected the western and central sectors of the borderland. From Oltu ran one of the principal tracks from the Russian frontier to Erzurum: Oltu-Nariman-Id-Gurcu bogaz. In this direction, from Akhaltzike-Akhalkalaki to Erzurum via Oltu, the Russians had, for a future campaign, gained two-thirds of the distance.

In the central sector the Russians acquired Kars, and the new frontier was traced over the Soganli dag between Zivin and Karaorgan. Kars had thus become a Russian fortress and advance base, making extremely difficult any invasion of Transcaucasus from across the Turkish frontier. The advance of the frontier on the eastern sector implied that the way to Erzurum was no longer from Erevan through Igdir, but from Kagizman, connected by road with Kars and by another road along the Arpacay valley with Alexandropol.

Kars, the key to Transcaucasus and fortress of Anatolia

The fortress of Kars was always the advance base at the head of the great Anatolian trunk road, Sivas-Erzincan-Erzurum. The importance of Kars lay in the fact that it covered the twin Turkish fortress at Akhaltzikhe and made possible a rapid Turkish advance both down the Kura gorges to Gori and along the affluents flowing to the Middle valley of that river. Such line of advance at once turned the line of the Suram and threatened Tbilisi. Tbilisi covered all the middle and lower Kura and was the key to Eastern Transcaucasus as far as the Caspian. Kars was the key to Tbilisi and hence has been described as the key to Transcaucasus.

The Turks remained obsessed with the importance of Kars and Ardahan for the defence of the Anatolian highlands; the fortifications of both strongholds had been improved by German engineers. The function of both Kars and Ardahan was that of advance bases for the invasion of Transcaucasus. In relation to Asia Minor; the significance of both Kars and Akhaltzikhe was that of advance positions, the defence of which might delay invasion by a whole campaigning season. The Akhaltzikhe area had been shown to have great defensive possibilities, and with the loss of the control of the exit from the Borjom defile, the Turks were to experience great difficulty in future campaigns in holding the Kars plain since the fortress of Kars blocked only one of the two lines of invasion. The real defence bases of the Anatolian highlands and Erzurum lay in the complex of mountains known in different sections. The defence of the way to Erzurum and further into central Anatolia was provided, not by the fortress of Kars, but by the natural bastion of the Soganli dag ridge.

The Russians campaigns of 1828-1829 may be regarded as a military and political reconnaissance of eastern Asia Minor. Turkey might be conquered more easily through Asia Minor than across the Balkans: conquest of Erzurum and the Anatolian highlands, a combined operation against Trabzon with the support of the Russian fleet, with Trabzon as base, a move on Sivas, seen as the nodal point of all Anatolia communications, threatening Istanbul's connections with Armenia, Syria and Iraq. Once the Anatolian highlands were conquered, the highway across the plateau lay open to an invader. Such an advance presupposed command of the Black Sea by the Russians: successful operations against a defender of Anatolia are to a considerable extent dependent on sea power.

Without control of the Black Sea, it was still possible for a Caucasian army to conquer Kars and even Erzurum, but the experience of Paskevich campaigns (1828-1829) has proved that lack of a naval support for combined operations made it difficult for a Russian army to advance in the direction of Trabzon, while effective operations against Sivas and the interior of Asia Minor required the establishment of forward bases at Trabzon and Giresun. Similarly, without naval control of the Black Sea, combined operations against Batumi were impracticable and in 1877-78 as in 1853-6, the Turks were able to maintain themselves in Batumi in a position flanking Russian communications from Caucasus into the interior of Asia Minor.

Source: Allen, W.E.D.; Muratoff, Paul; Caucasian Battlefields: A History of the Wars on the Turco-Caucasian Border, 1828-1921; Cambridge, Cambridge University Press, 1953

B. The alignment of the Turkish-Soviet border in the context of the First World War

The alignment of the common border had been the result of the entente between Turkish Nationalists and the Bolshevik regime during the First World War. The Moscow Treaty of 1921 setting the Soviet – Turkish border gave birth to 70 years of relative stability.

Caucasus and Anatolia: the World War I stage

Russian and Ottoman empires had been fighting fiercely between 1914-1917. Russia occupied Eastern Anatolia and the Turkish Black Sea coast: Kars, Sarikamis and Erzurum Rize and Trabzon had been captured. The possession of this port, was a necessity to the Russians to consolidate their hold on Erzurum. The road connecting Trabzon with Erzurum was the principal avenue of communications with the interior of Anatolia. It is clear that the outbreak of the Russian Revolution in the spring of 1917 alone saved the Turks from complete military disaster in Anatolia.

The reoccupation of Anatolia, and the Treaty of Brest Litovsk: a reversion to the frontier of 1877

Since May, 1917 a kind of informal armistice had come into being all along the Russo-Turkish front. Only a few hundred Russian officers were prepared to continue the defence of the Caucasian front. A Transcaucasian federation was set up in response to the transfer of power in Russia to the government of the Soviets. The Armenians remained strongly pro-Ally and fundamentally pro-Russian, and tried to develop a national army with the help of the Russian headquarters on the Caucasian front. Vehip Pasa initiated military action against the Armenian detachments who were holding the front line following the withdrawal of Russians troops. They preferred not to await for the coming of the Turkish army and ask for immediate evacuation beyond the Transcaucasian border.

While the Transcaucasian Diet was still awaiting for the opening of the peace negotiations with the Turks at Trabzon, the conclusion of the Treaty of Brest Litovsk was announced. By this instrument the Soviet government agreed to exclude from Russian territory the districts of Batumi, Ardahan and Kars. The Transcaucasian delegates protested that they did not recognize Brest Litovsk and were not bound by its conditions. The state of

war was legalized by the government in Tiflis. Turkish troops attacked Batumi and marched on Kars. Armenians retreated from Kars beyond the old Russian border of 1877.

The Turkish drive toward Transcaucasus: the 1918 adventure

In summer 1918, the Turkish troops pursued their march beyond the Arpacay river after an ultimatum demanding the evacuation of Aleksandropol. Once in Aleksandropol, the Turks had in their hands the important junction where the line from Sarikamis and Kars joins the main Tiflis-Julfa line. However Turkish troops refrained from taking possession either of the branch line to Erevan or of the Armenian capital itself. In the aftermaths, an ultimatum was sent to the Transcaucasian government in Tiflis demanding the immediate transfer of the line of the Transcaucasian railway running from Batumi through Tiflis to Baku.

Turkish aspirations in the eastern Caucasus soon became apparent not only to the British but also to the Germans, allied to the Ottoman Empire. The Georgian members of the Transcaucasian government saw in German protection the only possible salvation for their own national interest. The Georgian members proclaimed Georgia a republic independent of the Transcaucasian federation, which accepted a German protectorate. The main Transcaucasian railway line was occupied by a mixed German-Georgian detachments.

A peace and friendship treaty signed with Armenia, Turkish troops were based in the region of Aleksandropol and were controlling the Aleksandropol Julfa railway. The Turks were now in a position to develop their Caucasian plan directed first of all to the capture of Baku, but they have evaded German objections since they were using neither Georgian territory nor Georgian railways and were basing their operations on the temporarily occupied part of Armenia with the good chaussée from Aleksandropol via Delijan to Akstafa station. Despite the desperate situation in Anatolia, the 36th Caucasian division entered Baku on September, 16th, 1918 on the eve of a series of events which were destined to bring about the complete collapse of the Ottoman empire.

Attempt to unify Muslim-Turkish speaking Caucasian borderlands..

Under the terms of the truce of Mudros (October, 30th, 1918) the Turkish Army was obliged to withdraw to the west of the 1914 frontier. Evacuating Azerbaijan and all eastern Transcaucasia, the Turks reached the 1877 frontier at the Arpacay, and managed to delay the abandonment of Kars for a further two months. The delay enabled the Turks of Kars to set up

a provisional government, under Fahrettin Piroglu, on the basis of the *Fourteen Points* of President Wilson.

A congress of delegates elected from Kars, Aleksandropol, Akhalkalaki, Akhaltzikhe and Batumi, with Turkish speaking Muslim majorities, was convened in Kars to form a national council. In the country to the east of the Arpacay and Aras, the National Council took measures to support the resistance of local Turco-Tatar bands to the troops of the de facto government of Armenia. Fighting soon developed along the Arpacay and Aras. The Georgian forces were driven up the Borjom defile beyond Arskhur, the Turkish frontier fort of 1828.

A second national congress convened in Kars on January, 17-18th, 1919. The National Council was reconstituted as the Provisional National Government of South-west Caucasus, claiming authority over all the Turkish and Muslim areas between Batumi and Nakhitchevan.

The British authorities in Transcaucasus refused to recognize these proceedings. At the beginning of March, Georgian forces under general Kvinitadze captured Atskhur, occupied Akhaltzikhe and Akhalkalaki. At the same time, a British contingent was drafted to Kars. On April, 19th, British troops surrounded the Parliament and arrested the leaders of the government, who were dispatched to Batumi and subsequently transported to Malta. During May, 1919, general Osebyan assumed command in Kars on behalf of the Armenian government in Yerevan.

The Turkish-Soviet cooperation on the borderlands

Eliminating the Caucasian barrier

Mustafa Kemal looked to Soviet Russia as an effective counterbalance to the Allied Powers. Foremost in his calculations was the need to eliminate the Caucasian barrier between Russia and Turkey. The Caucasus front was the key to turning matters around and saving the country from an irreparable Allied-imposed peace treaty. By combining with the Bolsheviks over the Caucasian isthmus, the Turks could open the floodgates to Anatolia, Syria, Mesopotamia, Persia, Afghanistan and India.

In July 1920, the arrival of the Red Army cavalry battalion in Nakhitchevan in July was applauded enthusiastically in the Grand National Assembly, as the linkage of the Soviet and the Turkish detachments opened a window through Bayazit to Azerbaijan and stymied the Armenian drive to recapture the lower Araxes river valley and the lines of communication and transportation to Persia.

At the end of 1920, the Soviets had occupied Baku and suppressed the independent republic, liquidated the White Army of general Wrangler in the Crimea, their forces in Transcaucasus were adequate to pursue of policy of reintegration of former imperial lands. The retrocession of Kars and Ardahan was seen as necessary for a Turkish-Soviet entente.

In September, 1920, the Turkish forces in Erzurum under Kazim Karabekir Pasa again crossed the 1914 frontier. Sarikamis was occupied on September, 29th and at the end of October the Turks entered Kars and reached the Arpacay. While a Soviet regime had already been proclaimed in the remaining territory of the Armenian republic (November, 28th), the last act of the Dashnak government was to sign the Treaty of Aleksandropol (December, 2nd, 1920) whereby Kars province again passed to the Turks. On February, 12th 1921, without the formality of a declaration of war, the Red Army launched an attack on Georgia, the last survivor of the three independent republics of Transcaucasus. On March, 18th the Georgians capitulated. On March, 7th, the Turks occupied Ardahan, Turkish troops marched on Artvin and Borchka and there was something of a race for Batumi which after an exchange of shots with the Turkish advance guard, was effectively occupied by the Red army at the end of the month.

The alignment of the Turkish-Soviet border: the Moscow and Kars treaties

The retrocession of the 1877 frontier with modifications distinct from those of the Brest Litovsk Treaty, is based not on the decisions at Brest Litovsk but on the two later treaties of Moscow and Kars, Turkish-Russian by essence.

The new Soviet-Turkish frontier was confirmed by two instruments; the Treaty of Moscow and the Treaty of Kars. The Russians accepted the return of Kars, Ardahan and Artvin to Turkey. At the same time, it was agreed that Batumi should become an autonomous province and a free port; and the Soviets subsequently recognized the special character of the majority of the inhabitants of the Batumi province by creating within the structure of the Georgian Soviet Republic, the Autonomous Soviet Republic of Adjara.

In this area the frontier, less favourable to the Turks than that of 1877, ran from the village of Sarp, on the Black Sea a few miles south of Batumi. The frontier then followed the northern boundaries of the former Russian circuits of Artvin and Ardahan to the line of the Arpacay. Along the south-eastern sector of the frontier, the Turks received some compensation for their forfeiture of the Batumi region in the districts of Tuzluca and Igdir

which had been under Russian sovereignty since 1828. The Aras, instead of the Agri dag, thus became the common bound between the two states.

The treaty of Alexandropol (December, 3, 1920)

The Treaty of Alexandropol was signed on December, 3, 1920 between the Turkish government of the Dashnak government of Armenia. The boundaries set by the Treaty turned out to be the permanent Soviet-Turkish border; the border between Turkey and the USSR as well as between Turkey and the three Transcaucasian republics. Hence, in the treaty of Moscow (March, 16, 1921) and the Treaty of Kars (October, 13, 1921), first Russia and the Soviet republics of Transcaucasus reconfirmed the boundaries as outlined in the technically illegal Treaty of Alexandropol. The Treaty had never been ratified on juridical grounds; since the Republic of Armenia was transformed into the Socialist Soviet Republic of Armenia by the agreement of December, 2, 1920.

The Armenian delegation led by Alexandre Khatisian proposed to create a new Armenia by combining the Russian Armenian territories with all or parts of the sanjaks of Bayazit, Van, Mus, the kaza of Khnus, and a narrow corridor to the seaport of Rize. According to the delegation's calculations, 800 000 Armenian refugees and émigrés would return or move to this region and thereby create an Armenian majority.

The draft rejected the cession of any part of so-called Turkish Armenia and instead provided the incorporation into Turkey of the districts of Kars, Ardahan, Olti and Kaghisman. But that was not the limit of expansion, for the country of Surmalu, with Mt Ararat was also marked for annexation. The Turkish army, moreover, would occupy and defend Sharur-Nakhitchevan. until local organs of self-government could be established there.

Khatisian's tried to make some changes to Armenia's advantage. Khatisian's appeals for the inclusion of the medieval capital of Ani were rejected. No more successful were his special pleadings for the Turks to leave to Armenia the country of Surmalu and Mount Ararat because of the historic-symbolic considerations, the importance of keeping the plain of Ararat intact as a single entity, and the economic significance of the Sharur-Nakhitchevan region as the primary avenue of trade and communication with Persia.

Yet within four months, the Turkish nationalists had succeeded in making the boundary with Armenia permanent through tough and persistent bargaining with Soviet Russia. Foreign Affairs Commissar Grigori Chicherin distrusted the Turkish Nationalists and insisted on some concessions to the Armenians. (Van-Bitlis). In the immediate aftermath of

Armenia's sovietization, Chicherin called for the renegotiation of the Treaty of Alexandropol. Kemal increased the pressure on Moscow by reviving Turkish claims to the strategic port of Batumi as a means of coercing the government of the RSFSR to recognize the new Armenian-Turkish boundary. General Karabekir's army did not withdraw from Alexandropol as expected until the signing of the Treaty of Moscow. Even then, he stalled for more than a month longer, leaving the environs of Alexandropol bare and drawing back across the Arpacay river into the province of Kars only on April 22, 1921.

The treaty of Moscow (March, 1921) and the treaty of Kars (October, 1921)

By the treaty of Moscow in March, 16, 1921, Turkey received outright all territories exacted in the Treaty of Alexandropol without so much as the formality of a plebiscite. Sharur-Nakhitchevan was made into an autonomous region under the jurisdiction of Soviet Azerbaijan, with the provision that it could not be transferred to another party (Armenia) without the express consent of Turkey. Moreover, even though the Soviet Armenian government initiated steps to incorporate Mountainous Karabagh, a measure that had been condoned both in Baku and Moscow, this decision was reversed in mid-1921, and eventually most but not all of the region was constituted as an autonomous district (oblast) of Soviet Azerbaijan.

The RSFSR moreover accepted responsibility for securing the confirmation of Armenia and the other governments of Transcaucasus, a pledge that was fulfilled in the Treaty of Kars on October, 13, 1921, between the Turkish government and the governments of the Soviet republics of Azerbaijan, Armenia and Georgia. Turkey ultimately would gain recognition of these boundaries by the Allied powers, together with many major concessions, in the Treaty of Lausanne in 1923, as the Armenian question was put to rest by both East and West.

History of Transcaucasian railways and Anatolian connections

The Russian government began building the Transcaucasus railway, from Black sea to Caspian sea in the early 1870's. Worked was done by railway battalions formed with labor levied from the army. The first section from Poti on the Black Sea to Tbilisi (Tiflis) was opened in 1872.

During the three and a half decades between the campaigns of 1877-1878 and 1914-1917, Russians improved the eastern and central sectors of the frontier. During the nineties a railway was built from Alexandropol to Kars and later to Sarikamis. Kars was indeed deemed

to be the strategic stronghold controlling access from Anatolia to Caucasus. Logically, as part of their strategic railway policy, the Russian built a branch of the Transcaucasus railway from Tiflis to Kars. This line was extended to Sarikamis, the actual border post between the Russian Empire and the Ottoman Empire. A 750mm narrow gauge line was built from Sarikamis to supply the front. The railway was soon extended from Poti to Batumi. The Transcaucasian railway (Batumi-Tiflis-Baku) connecting via Derbent-Petrosk and the North Caucasian lines with Rostov and the main Russian railway system had been completed during the 1880's.

In the context of the First World War, the Russian Administration for the Construction of the Military Railroad of Erzurum, completed the construction of Sarikamis-Erzurum narrow gauge railway of 165 km, and the 25 km of the route from Erzurum to Mamahatun until September 1917. The project included the constructions of the Erzurum-Basköy and Köprüköy-Hiniskale-Sevaki branch lines, but the projects were not fulfilled due to the withdrawal of the Russian Army in 1918. Another railway constructed in Eastern Anatolia was the Sahtahtı-Karakilise railroad connecting the valley of Ararat to the valley of Eleskirt. From this line, the Beyazit-Arnis (Arin) (160 km) (on lake Van) branch line was built and was extended till Sofali (40 km.) however the branch line of Karakilise-Malazgirt-Ahlat could not be accomplished. The railway, constructed along the Arpacay valley, was running through the Yerevan region down the Aras valley to Nakhitchevan and Julfa on the Persian frontier.

In the fortified region of Trabzon, the Administration for the Construction of Military Railways of the Trabzon Region completed the construction of the Trabzon-Gümüşhane line of 150 km, which was planned to pass through Erzincan and to connect with the Erzurum narrow gauge in the Mamahatun region. The main line of Batumi-Trabzon was projected for the connection of the Black Sea coasts with the Russian Empire, and a separate administration for the construction works was established. The turbulent year 1917 also hindered the construction of this railway.

In 1920, the Turkish Nationalist forces regained Kars. The Alexandropol treaty signed December 2, 1920 placed the present border along the Arpaçay River (or Arpa river) and the Araks river (Araxe river). Thus the Nationalist gained control of the 750mm line and of the 5-foot gauge line as far as Akyaka. It is likely also that TCDD operated these lines from its creation in 1927.

Source: Allen, W.E.D.; Muratoff, Paul; Caucasian Battlefields: A History of the Wars on the Turco-Caucasian Border, 1828-1921; Cambridge, Cambridge University Press, 1953

C. The issue of the border in Turkish-Soviet relations

The Turkish-Soviet alliance set in the war against Allied Powers had its aftermaths especially in the economic field. Turkey signed one of her first reciprocal economic agreement with the USSR. The bilateral economic agreement of March, 11, 1927, granted preferential treatment to the each others economic representation in the other country, facilitation for transit trade furthermore Turkish traders were allowed to use the port of Batumi. USSR helped the Turkish Republic in its industrialization effort; the basis of the textile industry were established thanks a Soviet credit. According to the 1932 agreement, the

Soviet Union granted Turkey a credit of 8 million USD to be used to pay imports of manufactured goods and industrial equipments.

At the end of the Second World War, the Georgian border became a source of threat for Turkey. On March, 19th, USSR denounced the Treaty of Friendship and Neutrality signed twenty years earlier. Minister Molotov, at the head of the Soviet diplomacy, put forward before the end of the war, conditions for the renewal of the Treaty of Friendship of 1925: retrocession of the provinces of Kars, Ardahan and Artvin, joint defense of the Straits, namely establishment of Russian bases on the Straits.

A few months later, the radio of Tbilisi, followed by Moscow and main newspapers published articles of two Georgian professors arguing that regions of Eastern Anatolia were historically and physically part of Georgia, and was therefore to be given to Georgia. In 1946, the Soviet press extended the claimed territories by including Van⁴. The Catholicos, spiritual head of the Armenian church demanded publicly the modification of the Turkish-Armenian border. The Moscow press publicized widely these statements, accentuated by moves of the troops on the Transcaucasian border. The issue of Turkey's membership to the Euro-Atlantic area triggered a brief discussion between the United States and some of the European allies arguing that the Turkish accession would enlarge the area of competence of the alliance beyond the legally defined geographical limits. Turkey became a full-fledged member of NATO on February, 18th, 1952.

The economic impact of the warming up of Turkish-Soviet political relations in the second half of 50's : « trade follows the flag »

The improvement of the cross-border relations set the framework for the development of economic links

First sign of a defreezing

On May, 30th, 1953, Ankara was informed that the governments of Georgia and Armenia intended to end their territorial claims on Turkey « *on behalf of good-neighborhood* »

⁴ « *The Borders of Georgia* », letter published on December, 20th, 1945 by the Pravda. In its issue of December, 14th, 1945, the Georgian newspaper of Tbilisi, Communisti, published a letter of the academics, Djanachia and Berdzenichvili, entitled « *About our legitimate territorial claims on Turkey* ». French translation in Articles et Documents, 29 Janvier 1946, n°449, Ministère de l'Information, direction de la Documentation

relations and the consolidation of peace ». On a parallel track, the Kremlin announced to be ready to review its position on the regime of the Straits.⁵ .

In the 60's, official visits between the USSR and Turkey had been carried out on a regular basis⁶. These contacts led to the release of joint statements and signature of declarations. The most important ones were those of 1972 and 1978 on the *«principles of Good-Neighbourly Relations»*. The two neighbours were already linked by a range of conventions and protocols aiming at regulating trans-border relations : the use of trans-frontier rivers (January, 8th, 1927), procedures for the settlement of trans-border disputes (July, 15th, 1937), the railway traffic (April, 27th, 1961), radio and telecommunications (April, 9th, 1962).

In 1975, the Final Act of the Helsinki declaration, recognized explicitly the principles of the inviolability of borders, and ended the century old Turko-Russian dispute on the regime of the Straits.

Declaration on the Principles of Good-Neighbourly Relations Between the USSR and the Republic of Turkey; April, 18, 1972

“ Believing that rapprochement between the two countries accords with the interests of stronger peace and development of cooperation between them, in Europe and throughout the world

Guided by the desire to develop between the two countries the relations of good-neighbourliness and cooperation, based on genuine confidence”

And work involved in the re-demarcation of the Soviet-Turkish border is an expression of the development of good neighbor relations.

“ In the tradition of good-neighbourly relations”, V. Vladimirov, Pravda, 30 dec 1972

The Soviet-Turkish documents concerning the state border between the USSR and Turkey, which were signed in Ankara on December, 29, 1972, are of major importance for advancing good-neighbourly relations.

Mutual willingness of both sides to respect the territorial integrity and the inviolability of borders as an unchangeable norm of relations between our countries. The work of for redemarcation of the Soviet-Turkish frontier, noted the joint Soviet-Turkish communiqué, signaled the development of good-neighbourly relations. The completion of the redemarcation will no doubt, contribute to the further stabilization of relations between the USSR and Turkey, which have markedly improved in the past few years.

⁵ Pravda, July, 19th 1953, in Youri Roubinski, Moscou et Ankara. Murailles ou passerelles entre l'Europe et l'Asie? Cahiers et Conférences, IFRI, Paris, 2002

⁶ October, 30th – November, 6th, 1964 : a Turkish minister of Foreign Affairs had visited the Soviet Union for the first time since 25 years. There would be 10 visits between 1965 - 1982.

3 Janvier 1976: Izvestia, For the Sake of Peace and Cooperation, G. Deinichenko

The official visit to Turkey of the Soviet government delegation headed by Alexei Kosygin, chairman of the Council of Ministers of the USSR

Soviet-Turkish contacts, built on the solid foundation of the 1972 Declaration of the principles of good-neighbourly relations. Acting in the spirit of this declaration, the two nations have made definitive steps towards the expansion of economic cooperation and trade. The already established economic cooperation which, as it becomes long-term and stable, is helping Turkey tackle the problems of industrialization.

Characterizing the general state of the relations between our two countries, Prime Minister of Turkey, S. Demirel, repeatedly stressed during the stay of the Soviet government delegation in Turkey that “the Turkish-Soviet frontier has become a frontier of peace and cooperation”

In 1958, Turkey built a glass factory with a 3,4 million rubles Soviet loan. Turkey reached self-sufficiency and started exporting glass. Trade between Turkey and Socialist countries had increased in the 50's with the establishment of a barter system.

The political détente between Moscow and Ankara boosted their economic, scientific and technical cooperation set by the agreements of 1967, 1977 and 1984 «*on the supplies of equipment, materials and services by the Soviet Union to Turkey for the construction of industrial factories*». Soviet experts took part to the construction of steel factory of Iskenderun, the aluminium factory of Seydisehir, and the oil refinery of Ali Aga.

2. The End of the Common Border : the Southern Flank in the Post Cold War Context

A. The Southern Flank Issue and the CFE framework

The CFE Agreement of 1990

The Treaty on Conventional Armed Forces in Europe was signed in Paris on November 19th, 1990 by 22 states. These were divided into two groups: the NATO group, composed of 16 members, and the Group of Six, which encompassed the former Warsaw Pact states. The CFE Treaty is the corollary of the process of negotiation between NATO and the Warsaw Pact countries over the balance of forces, which took place in the late 1980s under the aegis of the Conference on Security and Cooperation in Europe (CSCE). Its completion was made possible by the coming to power in 1985 of a new Soviet leadership and an emphasis on the search for a lasting agreement with NATO countries over equipment and force levels. The signing of the Treaty in Paris, in November 1990, ushered in a new era in

European security marked by the launch of a disarmament process, the effects of which are still being felt today.

The Treaty signed in Paris, on 19 November 1990, is to this day a unique legal invention in terms of conventional weapons control. For the first time since 1945, 20 European states, plus the United States and Canada, agreed to make significant reductions in land-based and airborne military equipment deployed on the continent of Europe. The main objective was to substantially reduce the risk of a surprise armed attack and the triggering of major offensive operations and to create a balanced conventional forces through the establishment of lower levels of conventional equipment. To this aim, limits were set on specified military equipment - referred to as treaty-limited equipment (TLE) - in the Atlantic-to-the-Urals Zone (ATTU).

Article II.1.B states “The term ‘*area of application*’ means the entire land territory of the states parties in Europe from the Atlantic Ocean to the Ural Mountains, which includes all the European island territories of the states parties. In the case of the Union of Soviet Socialist Republics, the area of application includes all territory lying west of the Ural River and the Caspian Sea. In the case of the Republic of Turkey the area of application includes the territory of the Republic of Turkey north and west of a line extending from the point of intersection of the Turkish border with the 39th parallel.

The Treaty application area is divided into four concentric sub-zones, one of which, “*the flank zone*”: the Treaty covers a specific zone in the extreme north and south of the application area, where the two military blocs come into contact, in which very tight limitations are imposed on equipment in order substantially to reduce the possibility of an encircling military manoeuvre.

The Treaty foresaw phased national reductions to be completed by November 1995. Notably, a solid verification and information exchange was agreed upon. Over the ten years of its existence the CFE Treaty has proved successful in bringing about disarmament and controlling the number of conventional weapons in Europe.

The changes wrought in the USSR and later the Russian Federation repeatedly had repercussions for the Treaty. In 1992, after the demise of the Warsaw Treaty Organisation and the USSR, the number of signatories rose from 22 to 29 even though the Treaty had only just become effective. In 1993, Czechoslovakia in its turn split into two distinct states. At the

same time the states of central and Eastern Europe embarked upon a period of political and economic change that relegated defence issues to the back burner.

It became clear that the application of the Treaty in CIS territory was running into problems. The rapid demise of the USSR had led to the break-up of its military organisation and a redistribution of equipment and personnel among the new states, against a background of inter-communal strife (in Georgia and Moldova) or inter-state conflict (Armenia and Azerbaijan) in the Treaty application area. The return of Soviet forces stationed in the Warsaw Pact countries also gave rise to problems concerning their relocation or deployment within that area. Some units were assigned to the navy or security forces, which fell outside the scope of the Treaty, and others were transferred outside the application area.

This was the background to the signature by the Treaty states, on 15 May 1992, of the Tashkent Agreement redistributing the former USSR's equipment and strength targets among the signatories. Russia ratified the CFE Treaty on 8 July and it came into effect provisionally on 17 July.

Following the break-up of the Soviet Union, the flank zone⁷ limits imposed further constraints on the relocation and stationing of Russian conventional forces within the areas of national territory subject to the Treaty. A similar situation applied on a lesser scale in the case of Ukraine, which also called for its flank limits to be reviewed. Consequently, Since 1993, Russia has called for a review of the limits set for the *flank zone*, which were formalised on 17 September of that year in a letter from the then Russian President, Boris Yeltsin, to the heads of state of the states parties.

In 1994 the onset of the first Chechen war (1994-1996) and the prospect of NATO enlargement to encompass the central European states were to continue to made the flank zone a matter of serious dispute between Russia and NATO over the application of the Treaty, with Russia repeatedly delaying reductions in equipment and forces and applying its flank zone commitments selectively.

In order to break a deadlock with serious implications for the survival of the Treaty, on 20 September 1995, NATO proposed reducing the geographic area of the flank zone in which the limits applied and removing a number of Russian military districts from the zone. Discussions between the two sides led the signing of the Flank Agreement in November 1995,

⁷ The flank zone is comprised of territory belonging to Russia, Norway, Iceland, Ukraine, Armenia, Azerbaijan, Georgia, Moldova, Turkey, Greece, Romania, and Bulgaria.

which reduced the geographic area of the flank zone and removed some Russian districts. In exchange, Russia committed to freeze and later reduce forces within the original flank zone.

The Adaptation of the CFE Treaty

On 23 July 1997, the 30 states parties agreed the Basic Elements for Treaty Adaptation. They decided that the CFE Treaty's original bloc to bloc structure was outmoded and should be replaced by national limits for all TLE categories. On 30 March 1999 a preliminary agreement was signed, which paved the way for the signature on 19 November 1999, of a draft adapted Treaty, during the 1999 OSCE Summit in Istanbul.

The main changes brought about by the new treaty were: (1) the agreement on a national ceiling for all State Parties, - replacing the previous group ceilings - and (2) the establishment of territorial ceilings for the ground-based weapons. Also, it was decided that a state party can only increase its ceiling if other states' parties assume corresponding reductions. Nevertheless, the original treaty remains in effect until all 30 states' parties ratify the adaptation agreement. A political declaration, the Final Act was agreed to on the same occasion.

The Istanbul commitments regarding the Southern flank

The adapted Treaty on Conventional Forces in Europe (CFE) and Istanbul Commitments regarding the South Caucasus and Moldova form twin parts of a single package. The Istanbul Commitments form an integral part of the CFE Final Act, and the latter forms an integral part of the adapted Treaty. Those twin agreements of 1999 require Russia to: reduce certain categories of heavy weaponry (designated cumulatively as treaty limited equipment) in this flank region to the levels set in the adapted CFE treaty; close two bases in Georgia by 2001, agree with Georgia on a timeline for closure of the other two bases, and withdraw all Russian forces from Moldova by 2002.

Russian Military Presence in Georgia

In the Final Act agreed upon at the 1999 OSCE Summit in Istanbul, Russia agreed in a Joint Statement with Georgia to withdraw part of its military equipment from bases located on Georgian territory. Russia undertook to disband the military bases of Gudauta and Vaziani by 1 July 2001, while Georgia granted Russia the right to basic temporary deployment at the bases at Batumi and Akhalkalaki.

Russian Military Presence in Moldova

After a cease-fire signed in 1992 had virtually ended fighting in the separatist, Russian populated Moldovan territory of Transdnistria, a peacekeeping force which included a Russian presence was deployed in the region. Russia and Moldova signed an agreement in October 1994 calling for the complete withdrawal of Russian troops from the province within three years. Because the agreement linked the withdrawal of Russian troops to the achievement of a political solution to the conflict, Transdnistrian authorities walked out of the negotiations. The Russian Duma has still not ratified the agreement.

The Moldovan Constitution, approved in the same year, establishes the permanent neutrality of the country and explicitly forbids the presence foreign troops on its territory. Following Russia's failure to meet the deadline, both parties reached an agreement which was incorporated into the OSCE Final Act of November 1999. Russia committed to dispose of all of its TLE by the end of 2001 and to withdraw its military bases from Transdnistria by the end of 2002. Since then, Moldova has repeatedly expressed a desire for the withdrawal of Russian troops.

The Istanbul Commitments had not attached any conditions to Russia's troop-withdrawal obligations and did set specific deadlines. The OSCE's 2002 Porto and 2003 Maastricht year-end conferences rephrased the withdrawal obligations into intentions, introduced unspecified "necessary conditions".

NATO's Position

NATO has all along taken the position that ratification of the CFE Treaty is contingent on Russian compliance with the treaty's flank-region limits and with the Istanbul Commitments. Furthermore, NATO and the U.S. have assured Russia that the three Baltic states would accede to the CFE Treaty – thus accepting constraints on allied defensive deployments in the Baltics – once the Treaty is ratified, which in turn depends on Russian compliance with the flank limits and the Istanbul Commitments.

Russia rejects the linkage between ratification of the CFE Treaty and fulfilment of the Istanbul Commitments. Russia has disputed the notion that its base-closure and troop-withdrawal pledges constitute "*commitments*."

From 1999 to date, NATO members have collectively maintained that allied ratification of the CFE Treaty and Russian fulfilment of the Istanbul Commitments are inseparably linked. This linkage was reiterated in the declaration issued at the end June 2004 NATO Summit: *“We reiterate our commitment to the CFE Treaty as a cornerstone of European security, and reaffirm our attachment to the early entry into force of the Adapted Treaty. We recall that fulfilment of the remaining Istanbul commitments on the Republic of Georgia and the Republic of Moldova will create the conditions for Allies and other States Parties to move forward on ratification of the Adapted CFE Treaty. We note that progress was made in 2003 on withdrawal of Russian military forces from the Republic of Moldova. We regret that this progress was not continued in 2004 and that the extended 31 December 2003 completion date, agreed in the framework of the OSCE was not met. It is essential that efforts be intensified to complete the withdrawal as soon as possible. We will continue, via the OSCE, to monitor and assist in this process. We urge a swift resolution of the outstanding issues between Georgia and Russia as set out in their Istanbul Joint Statement of 17 November 1999, and to this end call upon the parties to resume negotiations at an appropriately senior level. We welcome the approach of non-CFE Allies who have stated their intention to request accession to the Adapted CFE Treaty upon its entry into force. Their accession would provide an important additional contribution to European security and stability”*.

Russia’s weight on the OSCE platform

On November 9th-16th 2004, the OSCE's Joint Consultative Group (JCG), meeting in Vienna, witnessed Russia's overt repudiation of its obligation to withdraw its troops from Georgia and Moldova. Russia rejected any linkage between the Treaty and the Commitments.

At the OSCE's year-end meeting in Sofia on December 6th-7th, 2004, Russia ruled out any regional statement on Georgia or Moldova, and vetoed the political declaration's text that read: *“Some of the commitments made at the 1999 Istanbul Summit regarding Georgia and Moldova have not yet been fulfilled. Their fulfillment without further delay would create the conditions for the ratification of the adapted Treaty on Conventional Forces in Europe.”*

Furthermore, Russia added in its closing statement: *“Regarding the position taken by certain states on linking the so-called Istanbul commitments to ratification of the adapted CFE Treaty, the Russian Federation declares that it does not recognize this [linkage] as*

legitimate." It went on to insist that troop-withdrawal issues are bilateral ones, between Russia and Georgia and between Russia and Moldova, respectively, not brooking international intercession. And it portrayed the Istanbul Commitments as not binding: Russia may choose to fulfil them at some future time, provided Georgia and Moldova fulfil their "conditions."

B. The failure of a CIS collective security pattern in South Caucasus

The Treaty on Collective Security was signed in Tashkent on 15 May 1992 at Moscow's initiative. In 2003, this organization was expanded into the Collective Security Treaty Organization (CSTO) – in theory constituting a full military alliance. In theory, the CSTO includes three "regional groups of forces": the Western group of Russia and Belarus, the South Caucasus group of Russia and Armenia, and the Central Asian group of Russia, Kazakhstan, Kyrgyzstan and Tajikistan. This means that, in case of a general or theater war, Russia would take command of the forces of allied countries in the respective theaters.

In 1999, Azerbaijan and Georgia refused to extend their membership in the 1992 Collective Security Treaty, preferring deepening their level of participation in PFP and their security cooperation with NATO by joining the Planning and Review Process (PARP) in 1999. Both countries made public already in 2000 their goal of joining NATO. Georgia became officially an aspirant to NATO membership at the Alliance's Prague summit in November 2002; Azerbaijan, in April 2003. Armenia was left Armenia as the sole member of this Moscow sponsored organization in the South Caucasus.

The Group of Russian Forces in Transcaucasus (GRVZ)

During the USSR period, the Caucasus was divided into Trans-Caucasus Military District (MD). This region represented one of the most militarized areas, not only in the former Soviet union but also in the world. During the Cold War, the Caucasus was a part of Soviet Union's Southern Theatre for Strategic Military Action (TSMA), which was an important element of Soviet's power projection capabilities into the Near and Middle East⁸. The Transcaucasus Military District, which had coordinated Soviet military forces in the three republics of Transcaucasus, was headquartered in Tbilisi. In 1992 the Transcaucasian Military

⁸ Philip A. Peterson, "Turkey in Soviet Military Strategy", in *Foreign Policy*, vol 13, n°1-2, Istanbul, 1985

District, which had been operating during the Soviet rule, was transformed into the Group of Russian forces in Transcaucasus (*Gruppa rossiyskikh voysk v Zakavkaz'e*, GRVZ).

The Group of Russian Forces in Transcaucasus (GRVZ) remains the most combat ready military component in the region. The GRVZ includes eight thousand Russian soldiers, 153 tanks, 241 Armored Infantry Fighting Vehicles (AIFVs) and Armored Personnel Carriers (APCs), and 140 artillery systems and is stationed at the two military bases in Georgia (the 12th in Batumi and the 62nd in Akhalklaki).

In October 1993, defeated in Abkhazia and South Ossetia, the Georgian government was forced to end its strong opposition to membership in the CIS by becoming a full member and signing a series of security cooperation agreements. That step prompted Russia to send military peacekeepers to support government forces, which saved Georgia's president Eduard Shevardnadze from large-scale insurrection and further fragmentation of the country. In mid-1993 an estimated 15,000 Russian troops and border guards were remaining on Georgian territory. The terms of the so-called rescue included a Georgian-Russian friendship treaty that would have provided a legal framework for the Russian military presence in Georgia, establishing a twenty year leasing of the three bases by Russia. This document signed in 1994 between Presidents Boris Yeltsin and Eduard Shevardnadze never took effect. Although Georgia's parliament ratified it, Russia's Duma did not, because the document enshrined Georgia's territorial integrity.

The continued presence of Russian forces in Azerbaijan became problematic when Russian troops were alleged to have assisted Armenians in an attack that killed hundreds of civilians in the town of Khodzhaly, in southwestern Azerbaijan, in February 1992. In the face of widespread demands from the political opposition in Baku, components of a 62,000-member Russian force began to withdraw from Azerbaijan almost immediately. Striking a contrast to the protracted withdrawal of Russian troops from the Baltic states, the last Russian unit, the 104th Airborne Division, withdrew from Azerbaijan in May 1993, about a year ahead of the schedule that the two countries had set in 1992.

After Armenian independence, Russia retained control of the Russian 7th Army in Armenia, which numbered about 23,000 personnel in mid-1992. At that time, the 7th Army included three motorized rifle divisions. In the second half of 1992, substantial parts of two divisions--the 15th Division and the 164th Division--were transferred to Armenian control.

The other division remained intact and under full Russian command at Gyumri in early 1994. Meanwhile, Russia completed withdrawal of the four divisions of its 4th Army from Azerbaijan in May 1993. Some Armenian warrant officers were assigned to the division at Gyumri, and the two countries discussed assignment of Armenian recruits to Russian units. The Russian presence continued in 1994, with an operational command in Yerevan providing engineer, communications, logistics, aviation, and training capabilities. Collectively with the Armenian Armed Forces, the Russian forces stationed at the 102nd Military Base constitute the Transcaucasian Group of the CSTO. Joint exercises are held frequently. Yerevan provides considerable backup support for the base. Russia also actively participates in a joint border guard group on the Turkish-Armenian border (approximately 3,000), including 10 percent Russian officers⁹.

By 1996 the strength of the GRVZ began to decrease and, according to some data, it numbered not more than 8,500 troops. The percentage of local inhabitants in the GRVZ is high; some data show that from 60 to 90 percent of the numerical strength of the Batumi and Akhalkalaki bases are Georgians and Armenians. Although multinational in name, the Commonwealth of Independent States peacekeeping forces (CISPKF) in Georgia is almost entirely a Russian military force.

The numerical size of Russian garrisons in Batumi, Akhalkalaki and Gyumri is unclear. Russian bases in Georgia, Armenia, and Moldova are not accessible to inspection, even though the CFE Treaty provides for on-site inspection by OSCE teams to count the treaty-limited equipment and verify treaty implementation. Moscow has simply redesignated its own garrison at Gudauta as "CIS peacekeepers" and claims to have thereby complied with the OSCE's decision to give up the base. Moscow had deactivated the headquarter of the Group of Russian Forces in the Transcaucasus of Vaziani, 30 km from Tbilisi, almost two years ago, announcing that it would withdraw the personnel, and agreed in 1999 to hand the tank repair plant also based at Vaziani over to Georgia. However, Russia's Defence Ministry decided to keep the headquarters and the plant in Tbilisi until Georgia accepted Moscow's terms regarding the Akhalkalaki and Batumi bases.

⁹ Svante E. Cornell, Roger N. Mc Dermott, William D. O'Mally, Vladimir Socor, S.Frederick Starr, Regional Security in the South Caucasus, the Role of NATO, Central Asia Caucasus Institute, John Hopkins University, 2004

PART II

Impact of Cross Border Relations on Georgia's and Armenia's Strategic Orientation

1. Impact of Armenia's relationship with Russia and Turkey on its strategic choices

This chapter is aiming at providing an analysis of the repercussions of the opening of the Turkish-Armenian border and the normalization of the political relations between both states on regional security. The study will address this issue with insights from the Armenian perspective. The Armenia case is best defining the complexities of the regional security framework: one has a clear insights of how regional dynamics intertwine. Odd combinations and subtle balance and paradox presented by the Armenian context can be helpful in reaching out new synthesis, and going beyond superficial and well accepted divide lines. This chapter points out to the impact of geography and cross-border relations with the immediate neighbourhood on the strategic choices of a country.

A. The Cornerstones of Armenia's Relations with Turkey and Russia

1. A Costly Military Victory: a Besieged Country

The first years of the independent Republic of Armenia were marked by an indisputable military victory gained on the Azerbaijani neighbour. The military victory brought Armenia some significant territorial gains. Seemingly, the security of Armenians of Karabagh was secured, on land communications with Armenia were established.

Paradoxically, the territorial expansion had an adverse effect: Armenia felt more acutely than ever before the dire reality of being landlocked. The westward and eastward external communication channels of the country have been blockaded. The victorious Republic of Armenia has been nourishing the feeling of being besieged. Armenia antagonized Turkey and was drawn in a tight relationship with Russia. Actually, the foundations of its relations with its major neighbours were laid in the context of the Nagorno-Karabagh conflict. Russia became the unavoidable security provider as Turkey, its major neighbour, turned into the major threat. Armenia found itself in a highly complex security situation: taken in a stranglehold between a ceasefire line with Azerbaijan and a sealed border with Turkey. The Nagorno-Karabagh war had indeed severe repercussions on Armenia's cross-border relations.

Turkish-Armenian Relations at the Beginning of the 90's : From Promising First Steps to the Breaking off all Direct Links

Turkish evenhanded approach towards new Caucasian neighbours obstructed by the conflict

Turkey's renewed concern for the future of Transcaucasus began in January, 1990, when Soviet forces entered Baku following attacks on the Armenian minority and several hundred Azeri demonstrators were killed. At the popular level, there was widespread sympathy for the Azeri in Turkey. However, the government adopted a very cautious approach, insisting that the events in Azerbaijan were purely an internal Soviet affair and refusing to recognize Azerbaijan's abortive declaration of independence, issued on January, 20th.

In March, 1991, President Turgut Ozal visited Ukraine, Azerbaijan and Kazakhstan as well as Moscow, and regular flights started between Istanbul and Baku. The following month saw the first visit ever by a senior Turkish official to Armenia, when the Turkish ambassador in Moscow, Volkan Vural came to Yerevan to discuss the improvement of bilateral relations.

The Yilmaz government decided to take the risk of recognizing the independence of all the ex-Soviet states before the US and other western powers made the same decision: one of its last acts, before leaving office was to recognize Azerbaijan on 9 November, 1991. The incoming Demirel government followed this lead, by recognizing all the other states of the ex-USSR on 19 December.

Between autumn 1991 and the spring 1992, it appeared likely that Turkey might be able to develop good relations with both Armenia and Azerbaijan. Following ambassador Vural's visit to Yerevan, a high level delegation from Armenia was received by Ekrem Pakdemirli, deputy premier in the outgoing Yilmaz administration. There was much discussion of the development of trade between the two countries, in particular the expansion of the port of Trabzon to serve the transit trade with Armenia, which was proposed by an American-Armenian-Turkish consortium in February, 1992. Apparently, Turkey was urging Azerbaijan to reconsider the revocation of Nagorno-Karabagh's autonomy in a bid to diffuse the dispute.

Armenian forces attacked the western end of the Azeri enclave of Nakhitchevan, close to the frontier with Turkey. The fighting in Nakhitchevan had particular serious implications for Turkey, since the Turco-Soviet treaty of 1921 had specifically stated that it '*shall form an*

autonomous territory under the protection of Azerbaijan, on condition that the latter cannot transfer this protectorate to any third state". The Turkish commander of Land Forces, general Muhittin Fisunoglu announced that "*all necessary preparations*" had been made, and that the army was awaiting orders from Ankara to act: a strongly worded statement from the government also accused Armenia of "*aggression and expansionism*". On August, 18th 1993, Turkish Prime Minister, Tansu Ciller asked the Parliament to allow to mobilize troops in case Armenia attacked Nahkichevan. Turkish troops on Armenian border are on alert.

Petrosian's presence at the meetings of heads of state of the BSEC in Istanbul was taken as a further sign of his wish to improve relations with Turkey. He dismissed his foreign minister Raffi Hovanissian, after he delivered an outspoken anti-Turkish speech to a meeting of foreign ministers of the Council of Europe. Meanwhile Turkey sent a diplomatic mission to Yerevan at the end of August, pointing out the advantages which Armenia could derive from regular political and economic links with Turkey, but emphasizing that this would depend on a peaceful settlement of the NK dispute.

The Turks also made moves to relieve Armenia's chronic economic plight, which had been aggravated by an economic blockade on the part of Azerbaijan and the coincidental breakdown of transit routes across Georgia. In November 1992, Turkey agreed to deliver 100 000 tons of wheat to Armenia (the cost of which was to be borne by the EC) and to supply urgently needed electricity via a grid connecting the two countries. The last moved provoked protests in Azerbaijan. On december 8th , during a visit to Baku, deputy premier Erdal Inonu was obliged to announce that the electricity deal be cancelled, though the possibility remained that economic ties might be extended if the situation in and around Nagorno-Karabagh improved. The meeting of 1993 between President Petrossian and the charismatic leader of the Turkish nationalist party, MHP, Mr Arpaslan Türkes aimed to prepare the ground for future relations.

Failure in Establishing diplomatic relations

Turkey's demand for Armenia's official recognition of the Turkish-Armenian border in the early 1990s, and Armenia's refusal to do so, initially prevented the two states from establishing diplomatic relations. Turkey established diplomatic relations with Azerbaijan and Georgia in 1992. Armenia hasn't met the Turkish demand to state officially its recognition of the Treaty of Kars of 1921. Armenia considers that its accession to OSCE in the same year proves its alignment with the principle of the immutability of international borders. However,

it was not this dispute, but the exacerbation of the Nagorno-Karabakh conflict that ultimately led to the closure of the Turkish-Armenian border.

The closure of the Turkish-Armenian border

On March, 28, 1993: Armenian forces launched a new offensive to establish a second corridor between Armenia and NK through the town of Kelbajar, north of Lachin, causing a new flood of Azeri refugees. On 3 April 1993, following the Armenian attack against the Azerbaijani city of Kelbajar, the Turkish government retaliated by stopping the supply of wheat across the Turkish territory to Armenia by sealing the Turkish-Armenian border post; a decision that also ended direct communication between the two countries. Since 3 April 1993, opening the border has been directly linked to the resolution of the Nagorno-Karabakh issue. According to Turkish perceptions, opening the border and the normalisation of relations depend on Armenia's compliance with 'the principles of law and its willingness to solve problems with its neighbours'. Since closing the border was retaliation for Armenia's occupation of Azerbaijani territory, ending the decade-long, Turkish blockade is inextricably linked to the political settlement of the Nagorno-Karabakh conflict and the liberation of Azerbaijani lands. Any shift in this stance raises concerns in Azerbaijan, whose main leverage on Armenia is the border issue and which fears any weakening of its own position in the search for a political settlement. Consequently, Azerbaijan presses Turkey to maintain the status quo because the effectiveness of the blockade depends on Armenia being isolated from two directions. The politicization of the genocide issue under after Kocharian's accession to power erected an additional stumbling block to the resumption of Turkish-Armenian ties.

2. Russian Protection Against Turkish Threat

My analysis is mainly based on first hand data and insights collected in Yerevan in April, 2005. Interviews were carried out with Armenian experts, governmental officials and opinions makers. I remain particularly grateful to General Melkunan, Department of External Relations Relations, Ministry of Defense of Armenia for this valuable help.

Turkey: Threat to National Security

The regional context entails sharp decisions in regard to Armenia's strategic options. Armenia has land borders with four countries, therefore is completely landlocked. It doesn't have any diplomatic relations with two of them, namely, the Western neighbour, Turkey and the Eastern neighbour, Azerbaijan.

The state of relations with Azerbaijan is clear enough: the two states are still at war, the decade old ceasefire agreement is regulating their relations. However, it is very difficult to have a clear understanding of the prevailing situation with Turkey. The common border has been sealed for the last 12 years. Turkey has been one of the first states to have recognized the newly independent Republic of Armenia, together with Georgia and Armenia, but hasn't been able to establish official relations. The situation appears all the more confusing since it is highly difficult to define, in objective terms, bilateral issues at dispute. Turkey has been regulating its relations with Armenia accordingly to its relations with Azerbaijan. Put differently, Turkey decided to bind its relations with Armenia to the prospect of a Azerbaijani-Armenian peace agreement. Some Armenian officials can be quoted as saying *"Turkey has become the hostage of Azerbaijan"*.

Uncertainties in its relations with Turkey increase the widespread feeling of a lack of security in Armenia. In the absence of diplomatic links, relations with the major neighbour become highly unpredictable. The situation looks profoundly wrong: Armenia's search for reinsurance should have driven it to pave its relations with Turkey with strong guarantees and watchdog. The post Cold War context has reactivated deeply rooted fears.

Facts / Perceptions

Fears are merely based on perceptions rather than facts. The image of the Ottoman Empire is still haunting minds; Turkey is viewed as the successor state of the Ottoman Empire considered as a murderer.

Security Perceptions of the Armenian Population

The Armenian Center for National and International Studies (ACNIS) has conducted series of surveys in Armenia on a wide range of issues. ACNIS is a Yerevan think tank, chaired by the former Minister of Foreign Affairs of Armenia, Mr Raffi Hovhanissian. After my meeting in Yerevan with Mr Styopa Safaryan , analyst of ACNIS and supervisor of the surveys, I have been convinced that the opinions polls had been carried out with a scientific methodology set

out by social sciences. I decided to propose a digest of several recent surveys helpful to better understand the role and weight of the Turkish factor related to the security concerns of the Armenian population. Reliable quantitative data are quite rare in the region. These findings are all the more valuable since security is primarily based on perceptions rather than facts.

The pool selected for the surveys are made off 1500-2000 persons. The digest is based on the findings of the following surveys: "Armenia's National and International Security in the Next Decade, August 2004", "The South Caucasus: Common or Separate Destinies? Armenia's Place and Role in the Region, July 2005", "The Armenian Genocide: 90 Years and Waiting, April 2005", "Armenia's Foreign Policy, Orientation and Attitude toward Power Centers of the World, April/May 2004".

There is a general sense of insecurity among the Armenian population. 45,1% of the pool of interviewees think that today Armenia's national security is partially provided and 27,5% that it is not provided at all. The major military danger that will threaten Armenia in the next 5 years is for 47,5%, the possible outbreak of war with Azerbaijan. A Turkish military invasion is perceived a threat by only 7%. Nevertheless, to the more general question *"what are you afraid of?"*, 12% answer *"war with Turkey"* while 24% are afraid of *"arbitrariness of authorities"* and 18% of *"uncertainties"*. Turkey is viewed as an enemy country by 78,2% and Azerbaijan by 90,9%. Armenia has issues of dispute with Azerbaijan and with Turkey according to 97,5%.

Asked *"what is your attitude toward contemporary Turks and Turkey?"*, 62,6% answer *"a Turk remains a Turk, always capable of committing genocide"*. 28,9% rather answer *"Turkey's official policy is one thing and its people another"*. The genocide issue is indeed a very important factor impacting on the perceptions of threats. 61,1% think that *"the Turkish state in its entirety is foremost responsible for the genocide"* whereas 54,8% rather answer that Young Turks are. 81% agree that the Republic of Turkey today is accountable. 54% conclude *"from Turkey's denial of the Armenian Genocide"* that *"Turkey is afraid of its own past"* and 26% are afraid that Turkey *"can do the same in the future"*. 39,6% express that they feel pain when thinking about the genocide issue; 21,1% revenge and 18,1% hatred. The biggest loss is foremost human (53,4%), then territorial (22,8%). A very impressive majority (93,5%) believe that Armenia should claim reparations from Turkey. Reparations means at first (27,3%) official acknowledgment and apology. However, asked what will *"Armenia and the Armenian people gain from the acceptance of the genocide"* 73,5% bear the hope of the *"return of historical lands and their inhabitation by heirs of the victims"*.

A majority perceives the establishment of diplomatic relations with Turkey as a priority and the opening of the border as a necessity.

An incident occurred in 1993 convinced Armenian population and decision makers that these fears were well grounded. The military threat became palpable when Turkish tanks moved very close to the Armenian border near Gyumri. The late President of Turkey, Turgut Özal, was quoted by the one of the interviewees as having said *"It's time to show Armenians our teeth"*. Reference is also made to the Ambassador of Greece to Turkey, who wrote afterwards that Turkey had planned to attack Armenia. The statement of the Russian general pointing out to the risk of the outbreak of a third World War in case Turkish tanks cross the Armenian border hasn't been forgotten. Seemingly, no attention is being paid to the context in which this incident happened: Turkey wanted to deter Armenian forces who had moved very

close to Nakhitchevan to cross the border. It appears that Armenia had never planned to attack Nakhitchevan : *“The existence of a direct link with the main power was apparent. Armenians had been watching Turkish trucks going into Nakhitchevan. And we remember very well that Turkey is the guarantor state”* underlines one official of the Ministry of Defence of Armenia.

Nagorno-Karabagh / Turkey

Turkey is an enemy per se. Turkish staunch alliance with Azerbaijan in the Nagorno-Karabagh conflict is indeed a secondary factor. Furthermore, the Turkish factor and the memories of *“being a nation who suffered from genocide”* impacted on the conflict with Azerbaijan.

64,7% think that Armenians were in a recent past under a threat of genocide or wide scale massacres. 62,8% refer to the *“massacres of Armenians in Azerbaijan, Sumgait, Baku, Kirovabad”*, while those who refer to the concentration of Turkey’s armed forces on the Turkish-Armenian border during the Karabagh conflict, represent only 0,3%. According to 40,7% of the interviewees believe that *“Armenians of Karabagh and Armenia demanded their reunification”* because Armenians from Karabagh *“found themselves under a threat of being ethnically cleansed by Azerbaijani forces”*.

The Armenian Genocide: 90 Years and Waiting, April 2005” – Survey, ACNIS

The belief that the Turkish support help Azerbaijan to nurture the hope for a military solution is widely shared by Armenian experts. Sandwiched between hostile Azerbaijan and Turkey, Armenians develop a strong siege mentality nurturing their sense of insecurity. Russian military support was essential for the Armenian victory in the 1991-94 war over Nagorno-Karabakh¹⁰. It has enabled Armenia to build what its leaders say is the strongest army in the South Caucasus. More fundamentally, the pro-Russian sentiment is deeply rooted in the Armenians’ sense of insecurity, generated largely by century old fears from Turks and fuelled by the unresolved conflict with Azerbaijan over Nagorno-Karabakh.

Russia: the Security Provider to Contain Turkey

The political and especially military alliance with Russia has been a key component of Armenia's national security doctrine. Russia is viewed as a guarantor state against Turkey’s coercive policy. The presence of Russian troops provides Armenia with the additional security

¹⁰ Armenia inherited most of the assets and much of the equipment from the Soviet Seventh Guards All Arms Army of the Transcaucasus Military District, headquartered in Yerevan, as well as elements of an air army, and the 19th Independent Air Defense Army.

measures perceived as much need because of the incomparable balance of power with Turkey. Armenia is said “*not to be ready to live without the Russian base*”.

In accordance with the 1997 “*Treaty on Friendship, Cooperation and Mutual Assistance*”, Russia took up an obligation to protect Armenia from aggression. The mutual assistance clause is also enclosed in the CIS Collective Security Treaty. The fact that the trespassing of the Armenian border by Turkish forces will be qualified as an aggression against all and will trigger a collective reaction is being cautiously highlighted. The Turkish-Armenian border is the only Armenian border being protected jointly by Armenian and Russian border guards¹¹.

The facts that “*unlikely to Georgia, Armenia doesn’t share a border with Russia and doesn’t have significant national minorities*” and that “*Russia has never committed a genocide against Armenians*” reinsure Armenia in its relations with Russia. Furthermore, one has to bear in mind that “*Russia keeps its base in Gyumri on the request of the Armenian government*”.

Russian-Armenian security cooperation

In 1997, the two countries signed a far-reaching Friendship Treaty, under which they provided for mutual assistance in the event of a military threat to either party. The pact also allows Russian border guards to patrol Armenia’s frontiers with Turkey and Iran. Moreover, Yerevan has ratified a number of important security treaties with Moscow, to include a mutual assistance treaty and agreements on the long-term stationing of Russian forces in Armenia. Since April 1999 Armenia has been a member of the Joint CIS Air Defense System, and its space is protected by Russia’s missile systems and fighter jets.

Russia is currently stationing ground, air and air defense forces on its territory. In 2000, Yerevan signed an agreement allowing Russian troops to stay in Armenia through 2025 and, in March 2001, it signed a protocol that exempted Russia from paying rent for its military facilities in Armenia. In January 2002, Russia and Armenia agreed to establish a joint “counterterrorism” brigade. The capabilities of these surveillance, and command and control systems have been significantly improved over the years by the Russians to enhance the capabilities of the CIS air defense network. The national air defense is significantly enhanced by the Russian-operated joint air defense command center, which is located near Yerevan and linked into Russia’s and the broader CIS air defense network; and the one squadron of current generation Russian Air Force fighters, MiG-29 (Fulcrum), and a battalion of Russian ground-

¹¹ Highest concentration of a of border guards - except the Azerbaijani border which is not protected by border guards.

based strategic air defense systems, SA-12s, that are stationed in Armenia. Armenian units and personnel routinely train with Russian stationed-forces, which helps significantly with the training burden.

Source: Cornell, E. Svante ; Mc Dermott, Roger ; O'Mally, William ; Socor, Vladimir ; Starr, S. Frederick, Regional Security in the South Caucasus, The Role of NATO, Central Asia-Caucasus Institute, John Hopkins University, 2004

The 102nd Military base in Gyumri

The 102nd Military base in Gyumri has 3,500 personnel, 74 tanks, 165 Armored Infantry Fighting Vehicles (AIFVs) and Armored Personnel Carriers (APCs), and 84 Artillery systems. Additionally, Moscow provides the air/air defense assets that form the backbone of Armenia's strategic air defense, counter air and possibly offensive air operations. Collectively with the Armenian Armed Forces, the Russian forces stationed at the 102nd Military Base constitute the Transcaucasian Group of the CSTO. Joint exercises are held frequently. Yerevan provides considerable backup support for the base. Russia also actively participates in a joint border guard group (approximately 3,000), including 10 percent Russian officers, while soldiers and warrant officers are drawn from amongst local Armenians¹².

Armenian officials state openly that the *raison d'être* of the Gyumri base is to protect against a Turkish invasion. Armenia doesn't have a strategic depth, the center of Yerevan being at an hour distance from the border. The sense of vulnerability is amplified by the size of the neighbour that has to be contained. Armenia has made the assessment that forces available would be sufficient to protect Armenia, as *"it is highly unlikely that Turkey attacks Armenia with all its means and concentrates all its troops on the Armenian border, since Turkey has other sources of concern in the Middle East"*.

In November, 2003, Armenia and Russia signed series of new agreements to bolster their close strategic relationship. The Russian ministry of defence, Serguei Ivanov was quoted by Interfax news agency as saying in his press conference in Yerevan: *"Russia's military presence in Armenia is necessary. The military hardware at the Russian 102nd base makes any threat to Armenia unrealistic. We will rearm and re-equip the Russian 102nd military base in Armenia "*.

¹² Svante E. Cornell, Roger N. Mc Dermott, William D. O'Mally, Vladimir Socor, S. Frederick Starr, Regional Security in the South Caucasus, the Role of NATO, Central Asia Caucasus Institute, John Hopkins University, 2004

The Gyumri base in the context of the withdrawal of Russian bases from Georgia

The Russian based of Batumi rather small, is nevertheless important since it has the capacity to expand its capability and assist Gyumri for full scale operations. The closing of the base of Batumi will contribute to the isolation of the base of Gyumri.

According to the Russian-Georgian withdrawal agreement, at least 40 units of armored equipment, including 20 tanks, are to be removed from Georgia by September 1st 2005. Under the terms of the deal, around 40% of Russian equipment in Georgia is supposed to be relocated to Gyumri. Over the last summer, one Russian battalion completed a transfer from Akhalkalaki to the 102nd base at Gyumri.

According to the Military Staff of the Russian Troops in the Transcaucasus, at the beginning of 2005, there were 1,700 military personnel stationed at Batumi. In addition, the base had 31 tanks, 131 armoured fighting vehicles, AFVs, and 211 other vehicles, and 76 large-calibre artillery systems. The base at Akhalkalaki has 1,800 personnel, 41 tanks, 67 AFVs and 61 other vehicles, and 64 large-calibre artillery pieces.

Three trainloads of weapons and munitions, including chemical and nuclear warfare protection gear as well as anti-aircraft missiles, have left the Batumi base for Gyumri since the agreement was signed.

However, a number of experts in Armenia believe that the relocation of Russian heavy armaments to Armenia will reduce Yerevan's security. All the control units for Russian anti-aircraft systems in this region are currently in Georgia. The impending elimination of these units will sharply reduce control over the entire system.

The two bases remaining on Georgian territory lost any real strategic value for Russia, when they were deprived of the main component - the airfield in Vaziani. As there was no railway line to reach them, the Batumi and Akhalkalaki bases found themselves blockaded and encountered problems with the transportation of military contingents, fuel, and weapons. Indeed, the military line drawn in the XIX century has a sense if it's a line and not a dot.

3. Resentments against Russia

Recently Russian actions stirred up anti-Russian sentiment among Armenia's political circles and public in general. The fear that Moscow will trample Armenian national interests for the sake of its own interests and alienate its main regional ally were expressed in the national press.

Russia's decision to shut down its border with Georgia in September 2004 in reaction to the Beslan terrorist act has been the major event which triggered a strong public resentment, widespread discontent, even anger. The Kremlin's decision added to Armenia's isolation, severing one of its two overland export routes to Russia : Armenia is indeed depended heavily on a trade route via Georgia to Russia, known as the Upper Lars Pass. Yerevan was proposed by Russia to transport goods via South Ossetia, which it refused. Russian Transport Minister Igor Levitin had even claimed that a trade route via Iran and the Caspian Sea was a cheaper alternative for Armenia than sending goods to Russia via the Upper Lars Pass. The Upper Lars Pass had been reopened then for a few hours: nearly 600 Armenian trucks, personal cars and buses stranded on the mountain pass for a month were allowed to cross into Georgia and proceed to Armenia.

Russia has been often offending Armenian national pride, infringing unashamedly on Armenia's sovereignty. According to a survey carried out by ACNIS among 50 experts, Russia is perceived as the country which restricts the most Armenian independence. 56% of those interviewed think that Russia is the state which "*restricts the republic's independence and state building*".¹³

The lack of independence of the Armenian government was underscored by Kocharian's highly controversial decision in November 2004 to recognize a Kremlin-backed candidate's victory in the second round of Ukraine's presidential election that was subsequently annulled due to widespread fraud. The manifestation of Russia's heavy influence over Armenia's diplomacy discontented the population.

Armenians feel quite uncomfortable of being depicted as Russia's last reliable bulwark in the former USSR, as did Putin in visit to Yerevan in March 2005 for the launch of the Year of Russia in Armenia. In the meantime, as Armenia commemorates 2005 as a Year of Russia, Russia has declared 2005 a Year of Azerbaijan.

These events offer a favourable ground for the expressions of deepest resentment for Russians' general attitude about Caucasian people. One can hear that "*Russians are measuring all Caucasians with the same yardstick*" and that Russians have had traditionally an unique perception of all Caucasian people and treated them with contempt.

¹³ « Armenia's Foreign Policy Orientation and Attitude toward Power Centers of the World », Expert Poll Results, April, May, 2004, ACNIS

Infrastructure projects involving Iran have strained the Russian-Armenian strategic relationship. A recent pipeline deal between Armenia and Iran has emerged as a source of discord in Moscow's relationship with Yerevan. Under terms of the deal, the roughly 140-kilometer pipeline would cost an estimated USD 220 million to build (including a USD 100 million outlay on the Armenian side), and become operational by January, 1st, 2007. In addition, Iran and Armenia agreed on a gas-purchase deal in which Yerevan would buy upwards of 36 billion cubic meters of gas over a 20-year span. The deal was depicted by the Russian press as anti-Russian. Later Moscow softened its stance.

A planned railway project that would connect Iran to Russia via Azerbaijan has been a source of concern for Yerevan. Armenian officials fear that the railway, if built according to current plans, would deepen Armenia's regional economic isolation. The proposed Kazvin (Iran) - Astara (Azerbaijan) line would skirt Armenian territory, denying Armenia an opportunity to expand trade with Russia.

4. Armenia and the Euro-Atlantic integration process

Having said that Armenia perceives Russia as its best bulwark to contain a potential threat from Turkish, one fails to understand at first sight the reason why Armenia has been actively pursuing a partnership program with NATO. In fact, Armenia has never wanted to be left behind Azerbaijan and Georgia and has taken part to all programs conducted in the framework of the PfP. In the essence, not much can differentiate Armenia's degree of cooperation with the alliance from the one of Georgia or Azerbaijan.

In the context marked by the announcement of the transfer of Russian arms and equipment from Akhalkalaki, Foreign Minister Vardan Oskanyan presented Armenia's Individual Action Partnership Plan (IPAP) to the NATO Council. The expansion of Armenia's ties with NATO results from a steady process.

In 2003, Armenia hosted the NATO military exercises, and in 2004 it sent peacekeeping troops to join the international presence in Kosovo. In September 2004 President Robert Kocharian appointed veteran diplomat Samvel Mkrtchian to act as the country's representative to NATO headquarters in Brussels, a position previously filled by Armenia's Belgian ambassador. The IPAP process has been contributing to the on going preparation process of the national defence concept.

Armenia has been trying to modify its approach to national security, seeking to complement the longstanding alliance with Russia with military engagement with the North Atlantic Treaty Organization (NATO) and the United States.

Some Armenian experts and opinion makers have starting advocating the need to reassess Armenia's special relationship with Russia. Results of experts polls conducted by ACNIS are quite telling. However these positions differ significantly from the wider public opinion. 73% of the experts interviewed don't think that "*the presence of the Russian military base in Armenia is the main guarantee for the national security*"¹⁴. While 52,5% of the experts favour Armenia's membership to NATO, the result of the public opinion shows divisions in the society: 34,7% favour; 33,9% oppose and 31,4% don't have any answer. It is interesting to note that 52,9% of those who oppose Armenia's membership to NATO explain their position by the fact that "*Armenia should continue to be a member of the collective security treaty organization and to link its security with Russia*"¹⁵. Also noteworthy is the answer given in another pool carried out earlier about foreign military presence in Armenia in the next ten years. According to the public poll 46,9% answer '*only Russian military bases*', while 40% of the experts interviewed favour Russian and NATO bases all together.¹⁶

Officially, the Armenian security policy has four components: the bilateral security ties with Russia, CSTO are two of them along with the partnership with NATO and the bilateral cooperation with the United States. Armenia is promoting a dual track strategy, a complementary security doctrine in other words, stressing that neither its participation in CSTO is not to affect the degree of its relationship with NATO, nor Russian bases on Armenian territory would likely affect NATO-Armenia relations.

Armenia didn't express the willingness for NATO membership. Armenia is cautious not to take the risk to harm its relations with Russia with public statement in a context where there isn't any perspective of membership. The partnership with NATO is presented as a long process paved with pragmatic and substantial steps. The partnership with NATO is tightly linked to the Armenia's goal of joining "*the European family*". Thus, the establishment of close relations with NATO become mandatory for contributing to guarantee security in Europe. It is noteworthy that NATO is currently being perceived and presented as "*a gateway*" to the European Union.

¹⁴ « Armenia's Foreign Policy Orientation and Attitude toward Power Centers of the World », Expert Poll Results, April, May 2004, ACNIS

¹⁵ « The South Caucasus, Common or Separate Destinies », July 2005, ACNIS

¹⁶ « Armenia's National and International Security in the Next Decade », August 2004

The Turkish factor

Armenia looks in its cooperation with NATO for some guarantees against the perceived Turkish threat. Roughly said, the alliance, which traditionally had a “*Turkish face*” for the public, is currently being depicted as a protection against Turkish coercive policy. More substantially, Armenia bears the hopes that the Euro-Atlantic integration process will lead to a collective security framework or at least to a system of mutual understanding in which both Armenia and Turkey are included. NATO is increasingly seen as a “*bridge*” for establishing some kind of contacts between Armenia and Turkey.

Turkish soldiers on Armenian soil

Armenia’s desire to expand its cooperation with the alliance was put at test in June, 2002, when NATO held its first military exercises in Armenia. The idea of having Turkish soldiers on Armenian soil triggered a deep emotion. The government had decided to show a strong leadership and advocate for the need to cooperate. As a result, Turkey’s “*Istiklal Marsi*” national anthem sounded out in Armenia to welcome a group of Turkish soldiers and the Turkish flag was raised; “*and Armenians showed respect although the moment was painful*”¹⁷. At the start of the NATO exercises in late June, Armenian Defence Minister Serzh Sarkisian endorsed stronger bilateral relations. “*New dangers for the region and the world demand that, despite their disagreements, countries join forces in their fight against them,*” Sarkisian said.

“Will the Armenian-Turkish border become a separation line between Armenia and NATO?”¹⁸

The fear that Turkey might be a stumbling block to the establishment of a healthy relationship with NATO was expressed when Armenian President Robert Kocharyan refused to attend the NATO summit in Istanbul in June 2004. The official reason was “*the current state of Armenian-Turkish relations*”. The attempt at drawing the alliance's attention to problems in relations between Yerevan and Ankara raised controversies in Armenia. The Mediamax News Agency¹⁹ warned against the risk that the Armenian-Turkish border

¹⁷ Interview at the Ministry of Defence, Department of External Relations, March, 2005, Yerevan

¹⁸ Headline of the editorial of the Mediamax News Agency, 24 May 04, Yerevan

¹⁹ Mediamax has usually a pro-governmental stance.

becomes a separation line between Armenia and NATO and ask *“how far-sighted is the Yerevan government when it puts its relations with Turkey and NATO on the same scale?”*

That Armenia deprives itself of an opportunity to be represented at a high level at an extremely important NATO summit in Istanbul because of the absence of relations with Turkey was worrisome. Another source of concern was the fact that *“the Armenian president's absence and the Georgian and Azerbaijani leaders' presence at the summit may create a certain political background, which is not desirable for Armenia at all today when it has taken a number of steps which ought to prove that Armenia presents its own interests in the region and not those of Russia”*. Furthermore, there was *“no doubt that certain forces both inside Armenia and outside it are trying to present Robert Kocharyan's non-participation in the NATO summit in Istanbul as Moscow's private order”*.

However the Minister of Foreign Affairs, Vartan Oskanyan, who was leading the Armenian delegation at the NATO summit called Turkey to take to lead the processes in South Caucasus by normalizing its relations with Armenia. Armenian officials have started pinpointing that Turkey, an important member country and a neighbouring country, has to be the driving force in the Euro-Atlantic integration process of Armenia.

Turkey used the NATO heads of government summit in Istanbul to reopen a process of dialogue between Armenia and Azerbaijan. The Turkish Prime Minister Erdogan announced that a series of meetings between Turkish Azeri and Armenian officials on the sidelines of the summit were organized. The Prime Minister said that the decision taken at Minister Abdullah Gul's trilateral meeting on Monday with Foreign Minister Elmar Memmedyarov of Azerbaijan and Armenia's Foreign Minister Vartan Oskanyan to continue talks brought the hope that such meetings would contribute to regional stability and the resolution of regional disputes. He added that Turkey wanted a solution to be found to Azerbaijan-Armenia dispute on the basis of the understanding of win-win situation.

B. The issue of the Turkish-Armenian border

1. Reasons why the border has to be kept closed – the Turkish position

The issue of the recognition of the border by Armenia

Turkey has been seeking a specific guarantee of Armenian recognition for the existing border for the last twelve years. Turkey demands that Armenia officially states that it recognizes the Treaty of Kars of 1921, which set the frontiers between the two states. The Kars treaty of 1921, based on the highly disadvantageous Gyumri treaty that the Dashnak government signed, resulted from the alliance between Kemalist Turkey and Bolshevik Russia. Armenia claims there is no need for such recognition as its accession to OSCE proves its alignment with the principle of the immutability of international borders,²⁰. Furthermore, the Armenian side argues that the issue of the recognition of the border doesn't exist since Armenia has never asked for its revision.

This dialogue of the deaf prevented the two countries from reaching the protocols that accompany the establishment of diplomatic relations. The Turkish side ties the normalization of the relations to the official acknowledgment to an absence of territorial claims from the Armenian side on Turkey. In reply, the Armenian side has been demanding for a normalization without any preconditions by adding that unresolved issues be addressed later once bilateral political relations are set up.

Reaching a common list of these unresolved issues has been a painstaking task. Armenia refers to the obviousness of the fact of the recognition of common border but avoids intentionally any crystal clear statement. This ambivalent stance irritates deeply Turkey. Turkey is annoyed because of the content of the Declaration of Independence adopted on August, 23rd, 1990 by the Supreme Council of the Socialist Republic of Armenia, which refers to «*Western Armenia*», to «*the recognition of the genocide of 1915*»²¹ and because of the choice of Mount Ararat as the symbol of the state. The preamble of the constitution of the

²⁰ The reference to the OSCE principle on the respect of territorial integrity sound quite ironical in the light of the outcome of the Nagorno-Karabagh conflict.

²¹ The Declaration of Independence states at its very beginning “Aware of its historic responsibility for the destiny of the Armenian people engaged in the realization of the aspirations of all Armenians and the restoration of historical justice”; and in its article 11: “The Republic of Armenia stands in support of the task of achieving international recognition of the 1915 Genocide in Ottoman Turkey and Western Armenia”.

republic of Armenia refers to the Declaration of Independence²² signed by Levon Ter-Petrossian and Ara Sahakian, the president and the secretary of the Supreme Council respectively.

The question of whether the recognition of the “*genocide*” by Turkey may lead to Armenian territorial demands from Turkey is being kept on the agenda by Armenian opinion makers and apparently meets the expectations of the Armenian public opinion very widely defined. Those opinions recognize the fact that it is not the right time to make territorial claims from a powerful and hostile neighboring state but argue that Armenia has to preserve its “*historical rights*”²³ and keep on thinking about what would happen if the geopolitical balance changes and the Republic of Armenia demands that Turkey return Kars region and Surmalu district.²⁴

Turkey insists therefore that Armenia officially rules out any irredentist claim. In reply, Armenia argues that this demand infringe on its sovereignty. However, it was not this dispute, but the exacerbation of the Nagorno-Karabakh conflict that ultimately led to the closure of the Turkish-Armenian border.

The impact of the Turkish-Azerbaijani relations on the issue of the Turkish-Armenian border

The border issue has emerged as a significant obstacle to normalization largely because it is connected with the conflict between Armenia and Azerbaijan over Nagorno-Karabakh. Ankara’s decision to sever direct logistic links with Armenia was driven by a desire to buttress Azerbaijan’s sagging war effort. It was vowed that the policy would remain in effect until a negotiated peace was in place, and Armenian forces had withdrawn from

²² The preamble states «Recognizing as a basis the fundamental principles of Armenian statehood and the national aspirations engraved in the Declaration of Independence of Armenia ».

²³ Harut Sassounian, ““What Did Kocharian Actually Say About Demanding Territories from Turkey?” California Courier Online, July 21, 2005

²⁴ The newspaper Yerkir in an editorial published on July, 22nd, 2005 entitled “Borders are Unstable” writes “It should be noted that the borders in the Caucasus and Central Asia are rather unstable. Here is some statistics: the Russian (Armenian)- Turkish border “changed” frequently between 1914 and 1921. According to an agreement in 1915-1916, Ottoman Empire’s eastern regions predominantly populated by Armenians, was to be divided between Russia and France; under the Yerznka truce in 1917, the Russian-Turkish demarcation line was determined, later the Kars region was put under Ottoman troops by the Brest-Litovsk treaty; under the 1918 Batum treaty, an Armenian-Turkish border was determined which later was changed under the Mudrus truce signed by the allies and Turks in the same year; under the 1920 Sevres treaty, Armenia acquired new borders, while later that year, under the Alexandropol treaty, the border was changed again. In 1921, new treaties were signed first in Moscow then in Kars, according to which the current border between Armenia and Turkey was determined. Ankara probably realizes the nature of the Moscow and Kars treaties. »

occupied Azerbaijani territory. Azerbaijani officials fear that opening of the border could encourage Armenian intransigence in peace talks. Many ordinary Azeris in Baku would consider any Turkish action to ease the Armenian isolation as tantamount to betrayal.

The shadow of the BTC project on Turkish-Azerbaijani and Turkish-Armenian relations: the security versus economy trade-off between Turkey and Azerbaijan

The Turkish authorities have so far refrained from assessing the cost of maintaining the border closed, but former President Süleyman Demirel gave some inkling of the prevailing official opinion when he said in the 1990s: *'Turkey cannot take the risk of displeasing her Azeri brothers in order to allow a few to make some profit.'* Based on 2002 data, Armenia's GDP, estimated using purchasing power parity, amounts to USD 9 billion, whereas that of Turkey accounts for more than 40 times as much – approximately USD 430 billion. During the same period, in 2002, Armenia exported production worth USD 630 million, while Turkey exported that of USD 52.6 billion. These indicators show that Armenia cannot be of very special trade interest to Turkey. Definitely, a re-opening of the borders can be attractive for Turkey in terms of transit roads, in particular taking into account the opportunity of a re-exploitation of the Kars-Gyumri railway. One of the most essential cards in the sleeves that Armenia possesses as an argument for the necessity of re-opening the Turkish-Armenian border, is the perspective of regional development of the eastern regions of Turkey.

Indeed, there are high economic risks, particularly Turkey's share in the AIOC and the Baku-Ceyhan pipeline project. Azerbaijan used the east-west option for transporting its energy to world markets as a bargaining tool in its relations with Turkey. In exchange for Azerbaijan's support for the Baku-Ceyhan pipeline route, Turkey had to guarantee Azerbaijan's security, a trade-off that effectively silences Turkey in negotiations over Nagorno-Karabakh. Azerbaijan sees Turkey as a military ally, rather than a diplomatic actor, in the region. While Turkey was asked to demonstrate her solidarity with Azerbaijan on the battlefield, Aliiev moved to improve relations with the Russian Federation in the hope that Moscow would help resolve the Nagorno-Karabakh conflict on Azerbaijani terms. By November 1993, two important deals had been concluded and the Russian oil company, Lukoil, was invited to join the international production sharing agreements for the Chirag, Azeri and Guneshli oil fields. At first sight, the concessions to Russia appeared to be paying

off. At the signing of the agreements, Russia's former minister of fuel and oil, Yuri Shafrannik said that *'the signing of the treaty between Moscow and Baku will have an impact on solving the Karabakh conflict'*.

Economic sanctions have rarely been used successfully to attain political objectives. Despite the suffering of the war, living standards in Armenia have obviously improved, especially since 1996. During the first half of the decade, Yerevan only had electricity for 30 minutes a day, there was a critical water supply problem and its inhabitants had to cut down trees to warm themselves in winter. Although Armenia continues to have real economic problems, the population is aware of the amelioration that has taken place.

As a matter of fact, Turkish regional policy locked in the framework of the BTC pipeline project contributed strongly to freeze the Azerbaijani-Armenian conflict. Turkish diplomatic capabilities in the region had been severely curtailed by the security versus economy trade-off set up between Azerbaijan and Turkey. Turkish policy toward the region had become hostage to security relations with Azerbaijan; furthermore an openly pro-Azerbaijani stance on regional issues had become the cost of the realization of the BTC pipeline. Azerbaijan's bargaining strategy ousted Turkey from diplomatic arena.

The transit issue through Armenia : interconnectness between the Baku-Ceyhan pipeline and the issue of the political settlement of the Karabagh conflict

As the main alternative to the Russian pipeline connecting Baku and Novorrossisk, Turkey proposes its own pipeline option: the Caspian-Mediterranean option. The Caspian Mediterranean Pipeline project is launched in December 1994, a few months after the deal of the century. Turkey started lobbying actively against the Northern route and restrictions in the use of Turkish straits; with the aim to transform Turkey into an energy corridor and to ensure the availability of supplies at the lowest price. The Turkish Caspian-Mediterranean oil pipeline proposal has no defined route as to how it should run to the Turkish border. Turkey declares itself to be open to all options. The Baku-Ceyhan pipeline route, qualified as the Turkish option, was initially conceived as a link between Azerbaijan, Nakhitchevan and Turkey aiming at transporting Azeri crude to world markets through Turkey. The uneresolved but vital question was how the pipeline could bridge the strip of Armenian territory between Azerbaijan and Nakhitchevan, from where it could be extended into Turkey. The solution which was favored by the Azeris was to route it along the Iranian bank of the Aras river opposite Armenian territory. Because of the Azerbaijani-Armenian conflict and the possibility of future disputes, the Azerbaijani government had been considering a plan that would safeguard against any possible disruption of oil export channels

Enabling the transit Nakhitchevan

The US administration objected to the proposed pipeline route crossing Iran: the search for avoiding the transit route through Iran had constantly been an important feature of the US policy. Former Energy Secretary Federico Pena stated openly that the US wanted "to

foster viable and reliable alternatives for export of the region's resources, particularly avoiding transit routes through Iran".²⁵ In a statement released by US Ambassador Mark Grossman in Ankara on January, 31, 1995, the US government threw its weight and support behind the Baku-Armenia-Turkey route, with the hope that this option would foster cooperation between Baku, Yerevan, Ankara and ultimately accelerate the peace negotiations on the Karabagh conflict, perceived as the major impediment in carrying the Azerbaijani and Central oil and gas to the West. This option was endorsed both by Azerbaijan and Turkey and the transit through Armenia is considered as a way to connect Baku to Nakhitchevan. Turkish and Azerbaijani governments considered the route through the narrow 46 km strip of Armenia which separates Azerbaijan mainland from Azerbaijan's Autonomous Republic of Nakhitchevan.

In 1995, the Azerbaijan International magazine in its section dealing with news from Socar, described the Turkish route as follows²⁶:

"Although no final decision has been made as to which pipeline route will carry Azerbaijan's Caspian oil and gas to industrialized markets, recent developments have given the Turkish option a decided edge. (...) The consortium agreement calls for the construction of a pipeline within 54 months. From the beginning the most logical choice given Azerbaijan's geopolitical situation, was to reach the Mediterranean Sea via Turkey. This pipeline would carry oil from Baku via Armenia or Iran through Nakhitchevan to Turkey and then connect with the existing Turkish-Iraqi pipeline, ending at the Mediterranean port of Ceyhan."

Such an option had been previously under consideration in Ankara and Baku and been integrated in the agenda of political negotiations. The search for secure route a pipeline and highway between Azerbaijan and Turkey via Nakhitchevan was set at high-ranking position of Azerbaijan's agenda. A plan with a good deal of unofficial support in Turkey was that Azerbaijan should cede Nagorno-Karabagh to Armenia together with a territorial corridor connecting the two on return of which Armenia would cede to the Azeris a corridor connecting Azerbaijan and Nakhitchevan.²⁷ The plan, initially elaborated in the context of the search for the best route for the Caspian-Mediterranean pipeline connecting Azerbaijan and Turkey, is to remain on the agenda of the political negotiations of the settlement of Nagorno-Karabagh conflict. The resurfacing of the idea of a territorial exchange between Armenia and Azerbaijan, with Karabagh and Lachin corridor joining Armenia and Zangezour going to Azerbaijan, giving it direct land access to Nakhitchevan and Turkey is a source of concern for the Russian Federation. Furthermore, the perspective of consolidating this linkage by a Turkish-Azeri pipeline transporting the Caspian oil through Turkey to the western markets had increased fears. As a matter of fact, all issues concerning the status of Nakhitchevan (as well as that of Adjaria) are likely to lead to the direct involvement of Turkey and Russia. By virtue of the 1921 Russian-Turkish treaty signed in Moscow, both states remain guarantors of the status of the autonomous republics of Adjaria and Nakhitchevan.²⁸

²⁵ Testimony of Energy Secretary Federico Pena Before the US House of Representatives Committee on International Relations, 30 April 1998.

²⁶ Azerbaijan International, Spring 1995 (3-1), Socar Section, "Azerbaijan's Oil Pipeline Route: Turkey's Gains Edge", by Masoud Javadi, Nasser Sagheb

²⁷ Andrew Mango, "Sorting out Transcaucasia" Middle East Banking and Business, XII n°6-7, June 1992, Istanbul, in William Hale, "Turkey and Transcaucasia", ed. David Menashri, Central Asia Meets the Middle East, London, Franck Cass, 1998

²⁸ According at the same treaty, Moscow is also the guarantor of the border between Turkey and the three Transcaucasian Republics.

From the issue of a transit through Nakhitchevan to the issue of a transit through Nagorno-Karabagh

US government proposal put forward on another version of the Armenian route, which ruling out the transit through Nakhitchevan, assumed that a settlement of the Karabagh conflict between Armenia and Azerbaijan, would channel a pipeline through the disputed enclave itself and Armenia and then proceed on through Turkey to the Mediterranean coast. This option had been seen as a potential economic inducement for the Armenian government to give up its claim on Nagorno-Karabagh. This route was turned down by Armenia; the Yerevan government has refused to trade territory for economic gains. Robert Kocharian, then the leader of the Armenian separatist movement in Karabagh openly stated that Armenia would not allow a drop of Azerbaijani oil to be transported to the West.²⁹

The refusal of the oil route by Armenians necessitated a search for new alternatives. In this political and diplomatic impasse, in which neither of the proposed western routes were accepted, the Georgian option emerged. The Baku-Supsa route has been advocated actively by Turkey. Once the Baku-Supsa was approved, the prospects for extending the pipeline to Ceyhan would grow markedly. A watershed in the future of Georgia and the entire Caspian region was marked on 17 April, 1999 with the opening of the Baku-Supsa pipeline. Furthermore, having Baku-Supsa as an alternative route loosened Russian pressure on Azerbaijan and contributed to make it possible to further its realization of the BTC project.

The issue of the “regional project bypassing Armenia”

After the selection of the Georgian route, the issue of a transit through Armenia started mobilizing the US-Armenian diaspora. “*Trans-Armenian routes*” became a major campaign theme. Henceforth Azerbaijan and Turkey systemically ruled out any suggestion of altering the route of the Baku-Ceyhan pipeline. Proposals aiming at shifting the pipeline to transit Armenia were perceived as an opposition to the Baku-Ceyhan project as a whole. Organizations of the Armenian diaspora have indeed started raising the issue of the exclusionary nature of the Baku-Ceyhan, likely to foster greater instability and insecurity. Furthermore, the emphasize has been put on the cost-savings of a Trans-Armenian pipeline; Armenia is said to be the best transit option for deliveries of oil and gas from Azerbaijan to Turkey. As a matter of fact, in terms of distance, terrain and infrastructure, routing East-West energy corridor through Armenia might have significant cost benefits: while Georgia and Armenia are mountainous countries, a line through Armenia can be laid along developed railroad route stretching continuously from Azerbaijan’s Kasakh through Armenia to Turkey’s Kars and beyond³⁰.

An oil-based incentive to make peace had proven unsuccessful at the routing stage of the Caspian-Mediterranean pipeline. The initiative to build a pipeline from Baku to Ceyhan through Nakhitchevan had provided the ground for first attempts aiming at linking the search for a political settlement to the Nagorno-Karabagh with the issue of the pipeline project. The idea, advocated by the US to tie energy supplies through and to Armenia if it makes peace with Azerbaijan had encountered a strong opposition especially in Yerevan.

²⁹ John J. Maresca “a peace pipeline to end the NK conflict” Caspian Crossroads n°1 1995, in Nasib Nassibli, “Azerbaijan: Oil and Politics in the Country’s future”; Aras, Croissant, Oil and Geopolitics in the Caspian Sea Region

³⁰ Armenian Assembly of America, Research and Information Office, Issue brief – April, 12, 2002

The BTC and Pipeline Peace Package: Prospects Raised by the OSCE Istanbul Summit, November, 18-19, 1999

The OSCE summit : a watershed for BTC project and east-west energy corridor

Despite the selection of the Georgian route, the linkage between the Baku-Ceyhan pipeline project and the political settlement of the Nagorno-Karabagh conflict has not been completely phased out. The idea of the BTC being a “*peace pipeline*” will be seriously raised in the context of the OSCE summit held in Istanbul in November, 1999. This aborted attempt of the OSCE Istanbul summit based essentially on Turkish diplomatic efforts, strongly supported by the Clinton administration shed light to Turkey’s potential capability to use the BTC pipeline project as a stabilization factor and contribute to the mediation efforts for the search for a political settlement of the Karabagh conflict.

Steps taken in fall 1999 enhanced the credibility of the BTC project. The announcement made by BP-AMOCO supporting Baku-Ceyhan, and the agreements signed at the OSCE summit held in Istanbul that laid down the legal framework for gas and oil pipelines from the Caspian Sea to Turkey were a turning point. At the sidelines of the OSCE summit, in the former Ottoman Ciragan Palace on the shores of the Bosphorus Strait, leaders from Turkmenistan, Azerbaijan, Georgia, Turkey and Kazakhstan signed four key agreements: Istanbul Declaration on Baku-Ceyhan was followed by intergovernmental agreement for Baku-Ceyhan, a deal on Transcaspian pipeline to carry Turkmen natural gas, and a declaration of intention for the sale of Azerbaijani natural gas to Turkey. President Clinton signed the agreements as a witness to the parties commitment.

The BTC agreement, reached at the end of a hard negotiation process carried by the Turkish government and US administration, was highly publicized. It was presented as an important victory for both governments and a major setback for Russia. Furthermore, the agreement reached upon the Trans-Caspian project, which will transfer natural gas from Turkmenistan to western markets again via Turkey, was seen as factor likely to contribute to speeding up the activation process of the Baku-Ceyhan project.³¹

Efforts to reach an agreement for the Nagorno-Karabagh conflict and Turkey’s involvement

Questions about the connection between pipelines and peace in the Caucasus have surfaced during the preparations of the OSCE summit held in Istanbul on November, 18-19, 1999; as a massive diplomatic offensive had been launched aiming at concluding a peace deal between Azerbaijan and Armenia, as well as a series of pacts on the Baku-Ceyhan pipeline in Istanbul during the summit. Parallel tracks of statecraft and oil development brought the possibility of a convergence of a Caucasus peace plan with a way to ease exports of Caspian Sea oil.

Although the precise nature of the link between the two issues had never been clear, efforts for reconciliation between Yerevan and Baku increased, and the same time the Baku-Ceyhan talks were speeded up. The perception of a pipeline-peace package linked to hopes of economic benefits from ending the Nagorno-Karabagh conflict might have given an extra-incentive to both sides. The shuttling of US Deputy Secretary of State Strobe Talbott between capitals and President Heidar Aliev’s visit to Turkey suggested a concerted push to wrap up

³¹ Turkish Daily News, November, 19, 1999, “And Turkey wins: Baku-Ceyhan deal signed”. The article reflects the general atmosphere by quoting the Georgian President Shevardnadze: “the accord heralded new cooperation between reliable partners in the Caspian region, and he urged photographers to keep and treasure their pictures of the historic signing ceremony for they will really become unique and cost very much.”

an agreement, despite tensions that have followed a week before the assassinations in Armenia and the resignations of Aliyev's top aides.

The activation of the Turkish diplomacy was remarkable: Turkey started acting as a de facto mediator, as the tragic context of Armenia gave Turkey to have openly a direct contact at the official level with Armenia. Turkish State Minister Mehmet Ali Irtemcelik, who was in the Armenian capital for the funeral of Prime Minister Vazgen Sarkysyan; had a meeting with the Armenian Minister of Foreign Affairs, Vartan Oskanyan. Minister Irtemcelik stated at this occasion that achieving peace in Nagorno-Karabgh will positively affect the countries in the region, from Georgia to Turkey, and that Turkey's ties with Armenia can improve in parallel with the development of relations between Baku and Yerevan.³² In the meantime, Turkey is in a very close contact with Azerbaijan. At President Aliev's private visit to Turkey, a statement from Turkish officials was worth mentioning: "a justified and stable peace for Nagorno-Karabagh is in Turkey's interests as Turkey has started to assume the role of a global player in the Caucasus. Conflicts should be put aside and cooperation should be improved, there are concrete grounds for cooperation between Turkey, Armenia and Azerbaijan."³³

On a parallel track, Turkey was conducted diplomatic talks with the Russian Federation. Fast on the heels of his historical visit to the US, Ecevit is leaving for another important trip for Moscow on November, 4-6. 1999. Turkish Prime Minister Bulent Ecevit and his Russian counterpart Vladimir Putin agreed that cooperation will replace rivalry as the key element in Turkish-Russian relations; signed a landmark protocol on cooperation between the two countries in the fight against terrorism. The signing of the protocol at a time when Russia had launched its second offensive in Chechna was considered a major gesture from Ankara to Moscow. Moscow reciprocated the Turkish gesture with the unprecedented decision to allow Turkey's Red Crescent to send two planeloads of humanitarian relief materials to Chechnya.³⁴

The two premiers agreed that their countries' economies were mutually dependent on one another. Turkish Prime Minister emphasized that "Turkey cannot overcome its economic difficulties until Russia overcomes its own crisis". The Blue Stream project, the 1200 km Blue Stream pipeline project to pump up to 16 billion cubic meters of gas per year from Russia to Turkey via a pipeline running under the Black Sea, was told to be on Turkey's agenda together with the TransCaspian natural gas deal, seen a major step toward the creation of an east-west energy corridor.³⁵

³² "Ankara hopeful about the future of ties with Armenia", Ilnur Cevik, Turkish Daily News, November, 1999

³³ Turkish Daily News, November, 2, 1999, Saadet Oruç, "Turkey takes on the role of a global player in the Caucasus". The article stresses also an interesting aspect: as Irtemcelik's participation to the Sarkisian's funeral was noted with caution in Baku, Turkish officials answered that "it was natural for Turkey, as a country that has suffered a lot from terrorism, to send a delegation to take part in the funeral in Yerevan".

³⁴ Turkish Daily News, October, 30, 1999, "Turkey, Russia to declare commitment against terrorism"

³⁵ Turkish Daily News, Ilnur Cevik, November, 6, 1999, "Ecevit, Putin say cooperation to replace rivalry in bilateral ties".

2. Voices from Armenia on the issue of the opening of the border

Since independence in September 1991, Armenia has maintained a formal policy toward Turkey that looked forward to the establishment of full diplomatic and trade relations with its neighbour, while seeking to deny it any role in mediation over the Nagorno-Karabakh conflict. Successive Armenian governments therefore downplayed the blockade and rarely complained about it either at home, or on the international stage.

Armenian Foreign Minister Vartan Oskanian at a conference by the Turkish Economic and Social Studies Foundation, held in Istanbul on June, 26th 2002 says: *'It is evident that we are not as fragile as some would wish us to be. On the contrary. Certain hardships can harden the resolve of people who are unfairly besieged. And we are no exception. It is not too soon for our neighbours to realize that the last decade's politics of pressure, discrimination and blockades have not achieved their intended goals. Instead, they may have added to our determination to solidify and strengthen relations with those of our neighbours who value our friendship and share with us common interests both bilaterally and in the region'*.

Since 2001, the government has been more active in drawing international attention to the issue, arguing that the border closure contravenes a range of internationally recognised, legal principles³⁶. Internally, it seems to have reached a consensus over whether to re-open the border. Broadly speaking, the government asserts that opening the border is not a matter for discussion since Armenia made no attempt to close it in the first place. However, the status of the Turkish border is proving to be a political and economic issue; as soon as the prospects for re-opening the border improve, the potential impact of closer economic and social contact with Turkey is also raised³⁷.

Furthermore, opening the border is depicted as purely a policy that will have a positive impact across the whole region. In response to a question about the possible ill effects it might have on Armenia's economy, Foreign Minister Vartan Oskanian pointed out that it had already adjusted to the blockade, and opening the border would only provide an additional impetus for development. When asked by the press about the possible negative consequences for the Armenian economy if the border with Turkey were to open, Armenia's Foreign Minister Vartan Oskanian replied: *I do not suppose that the possible lifting of the blockade from the Armenian-Turkish border will have any negative consequences for our country's*

³⁶ Tavitian, N and Gültekin, G. 'Les Relations Arméno-Turques: la Porte Close de l'Orient', *Les Rapports du GRIP*, Brussels, 2003/1.

³⁷ Caspian News Agency, 21 July 2003.

economy, such global problems need a broad approach. I am absolutely sure that the opening of the border is beneficial not only to the two countries, but also to the region as a whole. Certainly, I suppose that negative nuances may come up in individual spheres. But in the end, it is only beneficial. It is good because the republic will gain access to the Turkish market, and then to the Arab market through Turkey. For example, the railway that starts from the Armenian border and goes through Turkish territory as far as the Syrian port of Latakia is not functioning at the moment. But if it starts functioning, Armenian commerce may receive high dividends.’³⁸.

Transport and Communications Minister Andranik Manukian has been strongly advocating for the reopening of the Turkish-Armenian border, saying that it would greatly reduce Armenia’s dependence on Georgia for commercial communication with the outside world. Manukian argued that an open frontier would restore the Turkish-Armenian rail link and give Armenia an attractive alternative to importing and exporting goods through the Georgian railway. He was reported as saying “*We would get rid of Georgia’s monopolist status in railway communication,*”³⁹ underscoring the Armenian government’s long-standing complaints that transit fees charged by Tbilisi are disproportionately high. Over 90% of Armenia’s external trade is carried out through Georgian territory. Earlier, at a ceremony in August 2003 marking the 105th anniversary of Armenian railways, the Minister of Transport and Communications Andranik Manukyan said:⁴⁰ ‘*Considering the trends of the past two to three years, Armenian railways will carry around 30% more cargo in 2003 than in 2002. In Soviet times, the number of carriages unloaded in Armenia was 2,000 per day. Now, the number does not exceed several dozen. Armenian railways are 800km long and work at 15% of their capacity. The furthest destination of carriages from Yerevan is currently Tbilisi.’*

The cost of the border closures on Armenia’s economy is obvious. Armenia is far from the markets of Europe, North America and Southeast Asia. Access to Russia is limited by the mountainous relief while the consumption centres are situated in the north of the country. The regional market includes Georgia, Azerbaijan, northeast Iran and eastern and southeast Anatolia,⁴¹ a market of 50 million consumers with a combined GDP of \$10bn. In GDP terms, east and southeast Anatolia and northeast Iran represent one third of the regional market.

³⁸ Mediamax News Agency, 6 October 2003

³⁹ Atom Markarian, “Transport Minister Hopes For Open Border With Turkey”, Armenia Liberty, February, 6th 2004

⁴⁰ Arminfo, 4 August 2003

⁴¹ This region represents 9% of Turkey’s GDP. The good of the Turkish road network would allow Armenian producers to quickly reach the Turkish market.

Turkish and Azerbaijani embargoes currently restrict Armenian access to 44% of the regional market – the markets of Anatolia and Azerbaijan. The embargoes also increase by 38% access costs to markets in northeast Iran.⁴²

Closure of the borders with Turkey, Azerbaijan and Nakhichevan also harms communication with Iran. The distance between Yerevan and Tebriz is 350 km, but the road traversing Turkish territory and Nakhichevan became impracticable in the 1990s. The road that is currently used is 50% longer than its predecessor and crosses difficult terrain. The rail link across Nakhichevan to Iran is also closed.

Economic studies aiming at assessing the economic impact of the opening of the border are being carried out. A study by the Armenian Ministry of Industry and Commerce estimated that, in the event of both embargoes being lifted, re-opening one railway line will increase Armenian exports by 25%, while re-opening all four will double them. The potential gains range from USD 75-300 million. Nevertheless, the Armenian private sector has divergent views on the economic impact of the opening the borders.

The Armenian-European Policy and Legal Advice Center (AEPLAC) has conducted a quantitative research and publicized widely its findings⁴³. AEPLAC underlines that transportation cost comprises 20-25% of the nominal value. Cross country comparisons show that the transportation costs of Armenia today are among the highest worldwide. For instance, having a similar share of transportation costs in the foreign trade, Mongolia is ten times more distant from the nearest coast than Armenia. Therefore, high transportation costs triggered by closed borders, is a serious problem for the economic development of Armenia, in particular for export and import growth, and affects its industrial structure. Armenia is forced to export “light” products of high value.(i.e. diamonds, precious metals, information technologies).

According to the findings of the research, the first point to note is that the increase in trade leads to an increase in real GDP of 0.67% (nearly 10.7bn AMD). Real wage rate will increase by 0.28% and this, combined with the 0.14% increase in employment, will leave workers better off.

Armenia cannot expect serious improvements in the short-run. The re-opening of the border does not imply imminent massive trade turnover. Trade relations are an inertial process: they periodically need reformulation, new trade contracts and market analyses, which

⁴² Beilock, R. ‘Armenia’s Economic Dead End,’ Working Paper, University of Florida

⁴³ Armenian-European Policy and Legal Advice Center (AEPLAC), Study of the economic impact on the Armenian economy from re-opening of the Turkish-Armenian borders, implications for external trade, available at www.eaplac.am

cannot be achieved within one year. In this case, the only change that can be expected is the reduction of transportation costs, not only because Armenia will start using Turkey's roads, but also because Georgian transportation companies, faced by competition, will be forced to reduce the charge for their services.

Moreover, the Mediterranean seaports are of greater interest for Armenia than those of the Black Sea. The Black Sea ports do not allow the use of ocean container carriers. This is the reason that, for instance, the cost of freight forwarding from Poti to Marseille is 700-800 USD per container, and from Beirut to Marseille 100 USD, since in the latter case ocean ships are used, that have a large capacity and therefore a low cargo transportation cost price.

Within 5 years, the country will add about 2.7% (more than USd 100 million in absolute terms) to its real GDP, which is primarily attributable to the decline in transportation costs and change in trading volume brought about by the opening of the border. Real wages will go up by 0.91% and employment will increase 0.43%. Real investments and personal disposable income will go up 0.59% and nearly 1.8% respectively. The State Budget will add 3.5% of its real level.

In the medium-term, Armenia will manage to set relevant mechanisms for entering the EU market via Turkey with a broader commodity list. The current turnover volumes with Turkey will rise to some extent. As a result, the prices for Turkish goods in the domestic market will considerably decrease. At the same time, the Armenian exporters will have a wider opportunity to study the Turkish market capacities without an intermediary. In the long-run, it is obvious that the Armenian and Turkish markets will become interconnected.

Armenian producers will have to start competing with Turkish producers, which in the long-run will contribute to the modernization of Armenian enterprises. Armenian producers will have every opportunity to effectively enter the Turkish markets. This means that there is a possibility of changes in the export structure in favour of "heavy" commodities (for example, construction materials, chemicals and electrical power).

Views on opening the border

A seminar on the subject, organised on 17 September 2003 by the Union of Manufacturers and Businessmen of Armenia (UMBA) in conjunction with the periodical, *Armenia: Finances and Economy*, elicited some interesting insights, as reported in a local newspaper.⁴⁴

The economist Tatul Manaseryan said it was premature to open the border. He noted that this issue did not emerge at the initiative of Armenia and that Turkey has bigger interests

⁴⁴ *Azg Daily*, 18 September 2003.

in the issue, notably the development of its eastern provinces. He said that opening the border would threaten Armenia's amorphous economy.

Harutyun Khachatryan, deputy director of Noyan Tapan news agency, said that opening the frontiers would certainly benefit Armenia while delivering a moral blow against Azerbaijan. Armenia would become a transit country for Turkey, Azerbaijan and the republics of Central Asia, with all the associated profits.

Ashot Markosyan, deputy head of the state property department, was in favour of developed trade relations with neighbouring countries. Vigen Sargsyan, the Yerevan representative of the World Bank, said that there can be no other answer but 'yes' to the question of opening borders. He said he had asked local and foreign economists whether they could think of a single example of two neighbouring countries developing when they blockaded one another. He received a negative answer.

Deputy Minister of Agriculture Samvel Avetisyan said that Turkey did not really need Armenia's small market. Economist Ashot Eghiazaryan said opening the frontiers was a priority of the US which links regional security to resolution of the blockades. In his estimation, the resultant state of affairs might not be very advantageous for Armenia.

Another economist, Artsvi Minasyan, warned that the borders will open regardless of Armenia's opinion and asked what the government was doing to prepare for this development. She stressed the need to determine which domestic industries were progressing or lagging behind before opening the borders.

Summing up, Arsen Ghazaryan, president of UMBA and co-chairman of the Armenian-Turkish Business Development Council, said that Turkish capital would hardly damage our industry, citing the example of Georgia where Russian investment is much bigger. Mr Ghazaryan said UMBA had held a virtual agro-marketing workshop at which was made clear that Armenia has an opportunity to export agricultural produce to Turkey. Armenian energy, cement and textiles were also potential exports. In food products Armenia will naturally face competition but it would provide a good incentive for Armenian food producers to be content with moderate only profits, rather than they 'super profits' they now get. Armenian consumers could only benefit from open borders.

In a follow-up report published one week later, Khachatur Sukiasyan, head of the 'SIL Group' company and a parliamentarian, said that the earlier borders open, the better. 'There is a popular opinion that open borders will result in the expansion of Turkish products in Armenia and create problems for local producers,' he said. 'Yes, some local products will not survive the competition, but I am sure the loss will be much less than the gain.' He also believes hundreds of local products will be exported to Turkey and to further destinations. 'Open borders will force Georgia to review its transit taxes and cut them,' Mr Sukiasyan continued. 'This will foster the export of local products to Russia. Today we face transport costs higher than the actual price of the product.'

Businessman Mickael Vardanyan, who heads International Masis Tabak and is also a law-maker, was more reserved. He agreed that opening the borders will cut transit taxes via Georgia and decrease the net cost of our products, but that it will also benefit much larger Turkish producers. In his opinion, the flow of Turkish products will have very serious consequences for Armenia's 'fragile' economy and will result in a long-term decline in domestic production, worsening the country's foreign debt.

In Vardanyan's opinion, it is necessary first to design an information register of both countries' economies, markets and price shifts, elaborate customs regulations and clarify the conditions of trade. Without these preparations, he said, 'we are ready for the opening of the borders only mechanically, but not politically, economically or even psychologically. This will require at least three or four years. Today, I repeat, we are not ready to open the frontiers.'

The opening of the border with Turkey has become an important issue in Armenia. Polls are often being conducted. According to the survey carried out by the independent Vox Populi polling organization in October 2004 among 650 residents of Yerevan, 57% are in favour of an unconditional establishment of direct commercial links between Armenia and Turkey, 33% of respondents opposed and another 10% are undecided on the issue.

Traditionally, the strongest political opponent to the opening of the border is the Armenian Revolutionary Federation (ARF), a junior partner in the ruling coalition. While denouncing the Turkish blockade, Dashnaktsutyun leaders say that an open border with Turkey could leave Armenia economically dependent on its historic foe and open the floodgates to cheap Turkish imports. These fears that a Turkish economic expansion likely to suppress domestic production, especially in agriculture and light manufacturing are challenged by liberal economists who argue that Armenian manufactures should not be artificially protected against competition at home if they are to sell their products abroad.

3. Open borders will change the perception of Turkey / confidence building measure

A border that both sides strive to preserve

Both countries are concerned by the necessity to protect the border separating them, driven by deeply rooted fears; Turkish fear of Armenian territorial claims and Armenian fear of a Turkish invasion. The Kars Treaty drew a border that both sides are eager to preserve. Armenia considers Russia, the traditional ally, who contributed to a large extent to the alignment of the Turkish-Armenian, as the best guarantee for its preservation. In the meantime, Turkey prefers to ignore a neighbour that it has recognized.

The opening of border and the launch of a confidence building process

In this context, the opening of the border will increase the sense of security at both side. The perception of a potential threat stemming from the border will vanish with its opening to trade and human interactions. Armenian security spheres stress that they don't have any insurance as long as the border is kept closed. The lack of any direct link with Turkey make them fear even the possibility of an incident, the risk that Turkish soldiers misunderstand orders and

attack Armenians remains a matter of concern. As matter of fact, the most stable and secure borders are those which have disappeared as a result of intense cross-border interactions.

Suppressing the human barrier

Turkish sensitivity and pressing insistence on the issue of the recognition of the border is fuelled by the sentimental claim and nostalgic quest⁴⁵ of *Western Armenia*, being interpreted as territorial claims stemming from an official irredentist stance. Facing Ararat and Ani just from the other side of a sealed border doesn't indeed help to lessen the nostalgia of the lost *historical homeland* nourished with the grief and pain of a wound that has never been healed⁴⁶. This nostalgia can only vanish when the lost homeland becomes palpable and accessible with the suppression of the human barrier.

Impact of the public opinion

The embargo has had a very negative impact on Armenian public opinion, however. Turkey is considered the source of all daily difficulties and the author of Armenia's suffering. Turkey is regarded as a powerful country that arouses fear and seeks to oppress the newly independent Armenian state. Turkish policies towards Armenia have excited distinctly anti-Turkish trend, including boycotts on Turkish products. Despite the border closure, Turkish products still penetrate the Armenian market, providing further evidence of the inefficiency of Turkish policy in the region.

⁴⁵ This feeling must be understandable to Turks who have been dreaming of faraway mythic lands that they have never seen and where none of their relatives have been related to.

⁴⁶ The public survey conducted by ACNIS on the genocide issue reveals that 73,5% of those interviewed expect "*the return historical lands and their inhabitation by heirs of the victims*" as a result of the "*acceptance of the genocide*". The Armenian genocide survey, 90 years and waiting, April, 2005, ACNIS

PART II

Impact of Cross Border Relations on Georgia's and Armenia's Strategic Orientation

2. The impact of the Russian factor on Georgia's strategic orientations

A. Georgia and Russia entangled in a love-hate relationship

The favourite state turned into the disobedient

The Russian-Georgian relationships are 250 year old. The Georgians were the keystone of the Russian position in the Caucasus. The Viceroy of the Caucasus was based in Tbilisi (Tiflis)⁴⁷. Geography impacted on the course of history. The only militarily feasible route through the mountains was up through the valley of Terek and over the Daryal pass. In advancing along this route, Russians had a further advantage, for here lived the Ossetians. It was through their territory and with their collaboration that the Georgian Military Highway was constructed.

In 1769-70, general Todleben had brought the first organized Russian military force through the Daryal Pass and met the Georgian King Irakli II who ruled the two eastern Georgian kingdoms of Karthli and Kakheti. This expedition marked the beginning of Russians involvement in the affairs of the Transcaucasus. In 1783 by the Treaty of Georgievsk, Irakli accepted Russian protection. The Russian took advantage of this confused situation after the death of the Georgian king Georgia XII to proclaim incorporation of the two Eastern Georgian kingdoms into the Empire in 1801 and advanced against western Georgia where the kingdom of Imereti was still oriented toward the Ottoman Empire⁴⁸.

By far the most difficult area to penetrate militarily was the long Black Sea coast. Geographically, the region was extremely fragmented. The Circassian people who had inhabited these territories kept livestock, farmed and lived in dispersed settlements linked by trails. No major highways existed, no cities developed. The lingua franca of the entire

⁴⁷ Tsar Nicholas I appointed Prince Vorontsov as Viceroy of the Caucasus in 1845 – 1854. His successor General Read recommended to Nicholas I that all the eastern Muslim territories be evacuated, Russia further reconcile herself if further pressed by the Turks, to sacrificing all the Georgian territories and withdrawing north of the main Caucasus chain. He was replaced by Prince Bariatinskii who succeeded in capturing Shamil. The old palace of the Viceroy of the Caucasus is on the Rustaveli avenue and is neighbouring the Parliament building.

⁴⁸ Reference

Caucasus was Turkish, then termed Tatar. It was widely understood among the Circassians on the coast because of regular trade with Turkey and contacts with Ottoman administrators⁴⁹.

The Georgian and Russian are indeed very tightly linked by a common culture, literature, spiritual proximity and the Russian language. In the Soviet times, Tbilisi used to have special relationship with Moscow, Georgia used to have a specific place among other republics. For Russians, Georgia has been the country of dreams, a country where *“one could pick oranges from trees walking on the streets”*. Georgia’s Black Sea coast was particularly popular in all USSR. Sukhumi and Batumi were attracting tourists from the whole union. Georgia, which used to have the best relationship with Moscow during the Soviet period, has proved to be the *“bad duck”*, *“the disobedient”* among the former Soviet Republics.

To the roots of the anti-Russia feelings: the search for emancipation

Georgia has begun its independent existence painfully and dramatically and its relations with Russia has proven to be the most antagonistic and tension filled⁵⁰. The impression that Russia, looming on Georgia to bring it back into its orbit, has been fuelling suspicions and strong anti-Russia feelings. Russia is perceived as the source of all hardships that freshly independent Georgia has been suffering. The belief that Russia will use all means to preserve its leverage in Georgia is widespread in the Georgian society and political class. In the light of history, the preservation of its independence appears a challenging task: Georgia doesn’t want to be part of any Empire. Russia, which appears incapable of abandoning its imperialistic reflexes, is infringing on the Georgian nation’s sovereignty and dignity.⁵¹ The feeling of having always lost and the perception that Georgia will always be too small insufflate a deep sense of insecurity. Georgia views itself far more deprived than the two other South Caucasian republics. Georgians feel as orphans, without neither a strong diaspora or staunch external ally.

⁴⁹ Paul B. Henze, « Circassian Resistance to Russia », in Abdurahman Avtorkhanov, Marie Benningsen Broxup (eds), The North Caucasus Barrier. The Russian Advance Towards the Muslim World, C. Hurst & Co. UK, 1992

⁵⁰ Jonathan Aves, “The Caucasus States: the Regional Security Complex”, in Security Dilemmas in Russia and Eurasia, ed. Roy Allison and Christoph Bluth, London, RIIA, 1998

⁵¹ A comment of President Saakashvili is noteworthy in this regard: “I hope an agreement will be reached over withdrawal of Russian troops. We had very principled position here [during the recent talks between the Russian and Georgian sides held in Tbilisi on May 23-24]. We do not want to alienate Russia... We understand the importance of good relations with Russia very well. But, at the same time, everyone should understand that Georgia is not a kind of country with whom it will be possible to talks with banging a hand on a table. And [Russian] President [Vladimir] Putin understands this very well. We should put an end to this hysteria over the military bases” quoted in Civil Georgia, *“Saakashvili Speaks of Bases, Relations with Russia”*, May, 25th 2005.

Punishing the ungrateful and the unfaithful

Some in Georgia like to use the metaphor of a “*difficult divorce*” to describe their relationship with Russia: “*The relationship has ended, but one of the ex-partners is behaving as a jealous partner. Russia doesn’t want Georgia to chose another direction, to have other affiliations*”⁵² . The conviction that Russia will never give up Georgia turns sometimes into narcissism. The two countries are entangled in a love-hate relationship: the ungrateful and unfaithful Georgia, to which Russia has been giving so much and used to love above all, is striving to sever links. As a result, the punishment appears well deserved. It is noteworthy that both countries use the same vocabulary: Georgia has the impression of being punished, sporadically calls raise in Russia to punish Georgia, the *disobedient*.

Facing an irrational and unpredictable neighbour

Georgia has therefore the feeling to be facing an irrational and unpredictable neighbour. Georgian diplomats admit their difficulty to understand Russians although they used to know them quite well. Russia doesn’t have a definite policy towards Georgia. Russia is seen as incapable of defining its own interest in its relations with Georgia, its behaviour is depicted as “*reactive, irrelevant, emotional and hectic*”, and his approach to Georgia and the Caucasus as a whole as a self destroying policy.

Russia is thought to reveal its own sense of insecurity: Russia is perceived as a “*traumatized country, which feels betrayed, abandoned and left alone*”. The epidemic of revolutions, viewed as anti-Russian shows that *no one wants to stay with Russia*”. The underlying reason appears obvious, since “*Russia doesn’t have anything to offer, even not security*”⁵³.

Russia’s sense of humiliation

Georgia’s aggressiveness triggers a sense of humiliation at the Russian side. After the hand shake agreement reached between the Ministers of Foreign Affairs of Russia and Georgia, Ms Salome Zurbishvili was quoted by Civil Georgia⁵⁴ as saying “*Mr. Lavrov asked me before the talks: 'are you going to humiliate Russia, or are you ready for a real*

⁵² Reference interview at the MoFA Russian department

⁵³ Interview carried out in March, 2005 at the Russian Department of the Ministry of Foreign Affairs of Georgia.

⁵⁴ Civil Georgia, 26 April

agreement?'". Russian political class appears worried by the seemingly anti-Russian line of the Georgian authorities. The position is the Georgian side is seen to be frequently of an *"ultimatum character"*. Georgian officials are criticized for their use of *"specific provocative actions and hostile public assaults with threats towards Russia"*⁵⁵.

B. Russia, a major threat the Georgian national security

The draft document on Georgia's National Security Concept has been recently submitted to the Parliament for consideration. According to this draft document the list of existing and potential threats is as follows: territorial disintegration; spillover of conflicts from neighboring countries; military intervention; Russian military bases stationed in Georgia; contraband and transnational organized crime; international terrorism.

The presence of of Russian military bases in the country represents a major security threat⁵⁶. They violate Georgia's sovereignty and undermines economic and social stability. Therefore, their withdrawal is a high ranking national priority. The Ministry of Defence estimates that up to 300-400 servicemen, not included in the peacekeeping force, are stationed at Gudauta, in the conflict zone, in Abkhazia. The total of 3600 men serving in the bases of Batumi and Akhalkalaki. The bases, which have lost their relevancy in a strategic sense. Batumi used to have an importance in terms of projecting power southward, after the *'lost of Adjara'*", the base in Akhalkalaki has become non operational in any military strategy. They represent therefore a threat to the internal stability by their mere existence. It is believed that Russia has been using the bases to stir up turmoil, to collect intelligence. Furthermore, the bases are said to have been involved in arms smuggling. The fear has found a ground after the successful integration of Adjara into the national context. Arms caches of ammunitions coming from Russia, still being discovered in Adjara, made the case of a direct support provided from the base to the Abashidze's regime⁵⁷. These illegal activities of the bases are

⁵⁵ Part related to Georgia and entitled « On *Countering Anti-Russian Line of the Georgian Authorities* » of the explanatory note signed by the Acting Director of the Second European Department of the Russian Ministry of Foreign Affairs V. Tatarintsev, published by the Russian web-site Grani.ru. The note is an official response to the Parliamentary query by the Russia's Duma - lower chamber of the parliament and covers questions related to Georgia and the Baltic States.; reported by Civil Georgia, "Press Leak: Russian MFA on "Countering Anti-Russian Line of the Georgian Authorities", June 20th, 2005

⁵⁶ Based on a interview with the Deputy Minister of defence, Mr David Sikharulidze, Ministry of Defence of Georgia, Tbilisi, March, 3rd 2005

⁵⁷ The latest discovery goes back to early June, 2005: Georgian law enforcers found a large arms cache in the Adjara Autonomous Republic, near the Georgian-Turkish border on June 8. According to the Georgian Border

thought to be to a certain extent under Moscow's control which is said to just let them operate.

The conflict regions – the unrecognized republics – are another challenge to the national security. Openly supported by Russia, they provide with an leverage to keep its influence on Georgia. The draft document of the National Defence Concept reads that *“supported from outside forces, [they] undermine the country's political, economic and social stability and represent a source of terrorism, international organized crime and smuggling ».*

The threat of *“spillover of conflicts from neighboring countries”* mainly refers to the ongoing conflict in Russia's Chechen Republic. *“The conflicts [in neighboring countries] might trigger provocations from the Russian Federation, which we have already witnessed in regards to Pankisi gorge,”* the draft document reads.

This points out to the fact that the most acute problem for Georgia is its relationship to Russia. The settlement of disputes with Russia is tightly linked to the issue of territorial integrity. The bilateral relations are deprived from a solid basis. Russia hasn't agreed yet to ratify a framework agreement including all spheres of bilateral relations. A similar agreement was ratified with all the other CIS countries⁵⁸. Russia has been insisting for the inclusion of a clause binding Georgia not to station foreign military bases on its soil following the Russian withdrawal, and Georgia for the respect for its territorial integrity.

The delimitation and demarcation of State borders is an important challenge ahead for the Georgian diplomacy. Georgia has four neighbours and only its border with Turkey is clearly set. The Turkish-Georgian border was an USSR external border and was fixed by the Kars Treaty of 1921. All of the three other borders were internal borders which have never been precisely established.

Azerbaijan is about to begin talks on the delimitation of its border with Georgia, Armenia has recently started showing some interest in opening of the discussion. The issue of the delimitation of the Georgian-Russian border appears more problematical.

The delimitation of the Georgian-Russian border is very difficult. It is Georgia's longest longer. Georgia has to negotiate with four republics of the Russian Federation. The fact that

Guard Department, the arms cache included assault rifles, ammunition and hand grenades. An investigation into this issue is currently underway. Civil Georgia, Arms Cache Found Near Georgian-Turkish Border, June, 9th

⁵⁸ Interview with Marika Rakiashvili, Ministry of Foreign Affairs, Russia Department, Georgia, March 25th, 2005

each of them has its own constitution is a matter of complication. The two countries' state border delimitation commissions, held in Tbilisi on April 20-21, 2005 agreed on 120-km borderline at the Daghestani section. Talks are in progress over disputed sections of border. Furthermore, it is totally irrelevant that Georgia and Russia address the issue of border delimitation in Abkhazia and South Ossetia before the settlement of conflicts.

The framework agreement and the issue of the reestablishment of the territorial integrity

After the military defeats in Abkhazia and South Ossetia in 1993, President Sevardnadze yielded to the Russian pressure and agreed to Georgia's entry into the CIS and to the signature of a treaty granting Russia the right to maintain military bases on the territory of Georgia for a term of 25 years. At the last moment, the Georgian side managed to include two points in the treaty. They were stipulating Russia's obligation to assist Georgia in two matters: the reestablishment of its territorial integrity and the development of Georgia's armed forces. In case, Russia did not fulfil these terms, the treaty would become null and void.

The Parliament of Georgia didn't endorse the treaty. It did however, ratify a so-called "*framework agreement*" between Georgia and Russia in 1994, referring to the mutual recognition of territorial integrity. The document did not obtain ratification from the Russian state Duma. President Yeltsin refrain from submitting the text for ratification to the Russian parliament.

Russia although formally respecting the sovereignty and territorial integrity of Georgia, has established indirect military control over South Ossetia and Abkhazia. Georgia has been particularly sensitive about Russian attempts promoting the separation of the conflict areas from Georgia. Russia established a preferential visa regime for the residents of the unrecognized entities, organized official visits, and above all, granted citizenship to thousands of them. An incident occurred on July, 9th, 2003 provides a remarkable illustration of this policy: a vessel of the Georgian border patrol intercepted in Georgian waters, a Turkish ship heading for Sochi, on board its discovered 43 boxes with 25 000 bilingual Russian/Abkhazian passports for the inhabitants of Abkhazia⁵⁹.

C. The Pressing Need to settle the Georgian-Russian relations

Stabilizing Tbilisi's troubled relationship with Russia was among the high ranking policy priorities of the post-revolutionary government. The fact that Georgian-Russian relations needed to be revised was widely acknowledged. The detente process began even before the January 4th presidential election, with interim President Nino Burjanadze's trip to Moscow for talks with Russian leader Vladimir Putin.

Shortly after his election in January 2004, President Saakashvili visited Moscow with pledges to give bilateral ties a fresh start. He offered to set up joint patrols and checkpoints along the Chechen section of Russia's border with Georgia. Relations began to improve, with

⁵⁹ Civil Georgia, July, 9th, 2003

Georgian security forces discreetly extraditing a number of Chechen fighters to Russia. In May 2004 dozens of Moscow businessmen traveled to Tbilisi for the first Russian-Georgian economic forum⁶⁰.

But tensions began to return last summer, when Saakashvili dispatched troops near and in Georgia's separatist republic of South Ossetia, officially to combat local contraband rings. The move triggered a weeklong series of deadly skirmishes that threatened to reignite the 12-year-old Georgian-South Ossetian war. Russia, which has supported South Ossetia since it gained de facto independence, blamed Tbilisi for the renewed tension.

Georgian-Russian relations perceived from below

The *Georgian National Voter Study*, a survey carried out by the International Republican Institute (IRI) in June, 2005 among 1493 Georgians residents, takes the pulse of the Georgian population on Georgian-Russian relations. The biggest fear of the population is the territorial disintegration (28%) ahead of unemployment (21%) and economic and financial problems (11%). According to the results of the survey, the biggest failure of the current government is the straining of the relations with Russia (51%), well ahead of the increase of unemployment (9%) and the failure in restoring the territorial integrity (7%) or fight in Tshkinvali (7%). The Georgian-Russian relations are perceived as bad by 73% of the interviewees, 78% consider Russia as the first political and economic threat. Asked if the new Georgian government will improve relations between Georgia and Russia, 56% answer that it *is somewhat likely* and 17% *very likely*. 46% think that Russian bases will be closed and troops withdrawn by 2-6 years, 26% consider that it will be done in less than 2 years.

Tensions in Georgian-Russian relations directly impacted on the Georgian population when Russia decided unilaterally to impose visa on Georgian citizens in 2001, apparently in order to prevent the infiltration of terrorists through the Pankisi Gorge. Getting a Russian visa is actually an ordeal for Georgians. They have to start planning their trip to Russia two months before at least, get an invitation from a Russian citizen, bring the original to the Russian consulate, and spend two weeks to know whether they will be issued a visa.

D. The issue of the Russian bases in the year 2005

Under an agreement signed at the OSCE Istanbul Summit in November 1999, Russia undertook to close by July, 1st 2000 its military bases in Vaziani, near Tbilisi, and Gudauta, Abkhazia, and to begin talks with the Georgian leadership in 2000 on the timeframe for closing its two remaining bases in Batumi and Akhalkalaki. Russia complied with first of those commitments, and embarked as required on talks on shutting down the latter two bases.

⁶⁰ See next chapter for a thorough analysis of the event and Russian-Georgian economic relations.

After a two-year interruption and ten years of unfruitful talks, a new momentum was launched in the year 2005.

The Georgian has been demanding the complete withdrawal of the bases on the basis of both using the 1999 OSCE Istanbul commitments and of Georgia's national sovereignty and international law.

After the Georgian and Russian sides failed during Russian Foreign Minister Sergei Lavrov's visit to Tbilisi on February, 18th, 2005 to make any progress towards solving the bases deadlock it was agreed to establish working groups that, will manage to narrow the disagreements by holding intensive talks during March-April and report on May, 1st to the countries' two presidents. The working groups were expected to outline within two months, concrete proposals over the timeframe and terms of pullout. The deadline got a dramatic dimension since President Saakashvili linked his participation to the Moscow celebrations marking the end of World War II, on May, 9th to progress in talks over the pull out of two Russian bases from Georgia.

Georgian and Russian negotiators hold talks in Moscow on March 23rd - 25th over set of issues. A month later, Georgian Foreign Minister Salome Zourabichvili's visit to Moscow, on April 25th -26th , led to a hand-shake agreement – to be formalized by a formal treaty - Russia committed itself to launch the withdrawal of its bases from Batumi and Akhalkalaki in 2005 and finish the process by January 1st , 2008.

The closure of Russian bases by the end of 2007 has been considered of vital importance as 2008 and 2009 are the years of parliamentary and presidential elections in Georgia respectively. The willingness that the issue of Russian military bases should not become a part of the election campaign has been underscored by the Georgian side. Georgian Foreign Minister Salome Zourabichvili said after talks with her counterpart Sergey Lavrov in Moscow on May 6th that Moscow changed its stance and refused to adhere to the timeframe of the withdrawal of the bases set by the hand-shake agreement reached between the two Ministers in April over closure of the Russian military bases in Georgia by January 1st , 2008. The failure to reach an agreement prompted Minister Salome Zourabichvili to announce that Georgian President Mikheil Saakashvili would not visit Moscow on May 8-9⁶¹.

⁶¹ Georgian President Mikheil Saakashvili said on May 4 that Georgia “sacrificed a huge number of people” in World War II, “so I think I will go to Moscow to attend the celebrations marking the Day of Victory.”

The resolution of the Parliament and Russian reactions: "Anti-Russian hysteria"

On March, 7th parliament deputy Giga Bokeria unveiled a draft resolution, prepared at the Committee for Defense and Security requiring Russia to agree formally by May, 15th to close the two remaining bases by January, 1st 2006. If Russia rejects or refuses to meet that deadline, the Georgian parliament would declare the bases illegal and measures would be taken to prevent them from functioning: these measures include suspension of the water and electricity supplies to the bases, suspension of visas to the servicemen, as well as assessment of the total debt for the functioning of the bases⁶².

The Parliament was scheduled to debate the draft bill on March, 9th but postponed the debate until March, 10th at Burdjanadze's request. Parliamentary Chairperson Nino Burjanadze, who initially suggested the idea, had been arguing that the endorsement of a resolution declaring the Russian military bases in Georgia illegal would be inappropriate at the time being. However, on March, 10th deputies unanimously approved a resolution instructing the executive government to take measures against the Russian military bases in Georgia if an agreement over a "reasonable" timeframe for their withdrawal is not reached with Russia before May, 15th 2005. The adoption of this resolution strained further Georgian-Russian relations. A group of Russian parliamentarians proposed, in reaction to the decision of the Georgian Parliament, a draft law envisaging simplification of procedures of joining the Russian Federation for those breakaway regions on the former Soviet space. The attempt unfolded unsuccessful.

In May, the deadlock of the talks prompted Parliamentary Chairperson Nino Burjanadze to reiterate the Georgian Parliament's resolve to implement a March decision to outlaw the Russian bases if no agreement is reached by May 15th. Russian Defence Ministry spokesman Viacheslav Sedov condemned the statement as "*blackmail*." The Russian Minister of Foreign Affairs was quoted as saying: "*I hope that all the rather emotional*

⁶² Mr. Bokeria, a member of Parliament who actively supported the resolution was reported by Georgia News arguing for the adequacy of the timeframe: "The MP also added that if there is the political will, this timeframe is more than sufficient for withdrawing some 3000 military personnel and their families. "The Red Army took much less time to occupy Georgia [in 1921]".

*screams [from Georgia] will get the contours of the real policy and we will not have to leave the talking table,*⁶³

The Russian Foreign Ministry's Spokesman Alexander Yakovenko issued an information note on May 12th stating: «*The Russian side has committed itself to withdrawing the bases. We simply need to define a realistic timeframe and to agree on the technical details of the process. However, it seems that someone in Tbilisi trying to use these talks for the purpose of fueling anti-Russian hysteria instead of achieving results*»

Russian Demands about Timeframe

The Ministry of Defense of Russia assesses the cost of the pullout of the bases at USD 250-300 million. Are taken into account the costs of the withdrawal of troops and military hardware, accommodation of servicemen, construction of new places of re-location. Russia wants to avoid leaving Georgia the same way it left Germany, “*on a blank field*”.

Therefore, it insists to be granted enough time to build new places of location for the troops and develop the adequate infrastructure. The fact that the servicemen “*can't pull out into nowhere*” has been highlighted by Russian officials. Therefore the case for a necessary time of period of 3-4 years to re-shape the *Mountaineer Brigade of North Caucasus*, where most of the servicemen currently stationed in Georgia would be relocated⁶⁴.

Prevent the deployment of foreign troops on the Georgian soil

Russia insists that a provision be included in the Russo-Georgian comprehensive framework agreement which would ban Georgia from deploying foreign military troops on its soil. The Georgian side refuses, nevertheless understands Russia's concerns about its southern borders. Tbilisi seems ready to launch a discussion of a law on non-deployment of foreign troops.

The Minister of Foreign Affairs Ms Salome Zurbishvili gave a thorough explanation of Georgia's sensitivity on this issue: “*The issue of military bases belongs to the politics of 20th century; we live in the 21st [century]. Inclusion of this issue in the agreement would have symbolized unequal relations – similar to those which persisted between Georgia and*

⁶³ RIA Novosti, May, 12th, 2005

⁶⁴ Russian Defense Minister Sergey Ivanov reported on March 22 by Interfax and RIA Novosti news agencies

*Russia during Soviet times. We do not want to include this issue in the new framework agreement because [if it is included] it will turn out that Russia, as in Soviet times, still dictates what we should do and how we should behave. We are for new neighborly relations between our countries based on equal rights. I want to remind you once again that Georgia doesn't want the presence of foreign military bases on its soil. But this is Georgia's good will and not a position forced by other countries,*⁶⁵

President Mikheil Saakashvili said at a news conference on May 25th that Georgia will “peacefully” achieve withdrawal of Russian military bases from Georgia, adding that Tbilisi has no plans to deploy troops of any other foreign country on its soil. In an attempt to allay Russia’s fears, President Saakashvili stated that deployment of troops of third country in Georgia is not in Tbilisi’s interests. “*We do not want Georgia to become a stronghold of foreign troops,*” he added. “*We will do our best in order not to make any of our neighbor feel endangered. We will do our best in order not to create any problems to Russia. It is not in our interests,*” the Georgian President stated⁶⁶.

Alexander Yakovenko, the Russian Foreign Ministry’s spokesman, issued an information note the day after on May 26th, hailing the statement of the President of Georgia: “*We welcome this statement [of President Saakashvili]. It also voices the position of the Russian Federation... It is necessary to include this stipulation as a binding commitment in a legal document*”⁶⁷

The breakthrough and the Joint Statement

On May 30th, in Moscow, Ministers of Foreign Affairs Sergei Lavrov and Salome Zourabichvili signed a Joint Statement regarding the “*cessation of functioning*” of Russian military bases and other installations and withdrawal of Russian forces from Georgia. In this document, the Russian side renounces some major, long-held positions, accepts a timetable and benchmarks for troop withdrawal until 2008. The Joint Statement is not legally binding. However, it has the political value of committing Russia publicly to withdrawing its forces

⁶⁵ Civil Georgia, “Zourabichvili Explains Refusal on Binding Commitment not to Station Foreign Forces”, February, 17th 2005

⁶⁶ Civil Georgia, “Saakashvili Speaks of Bases, Relations with Russia”, May, 25th 2005

⁶⁷ Civil Georgia, “Moscow Hails Tbilisi’s Pledge not to Deploy Foreign Troops”, May 26th 2005

from Georgia by a certain date and even to observing intermediate deadlines and benchmarks. Moreover, the Joint Statement goes a long way toward predetermining in Georgia's favor the content of a legally binding Agreement, to be finalized "*in the nearest future*," on the timetable and modalities of the functioning and withdrawal of Russian forces from Georgia.

The Timeframe of the Withdrawal

Handover of the Tbilisi armor repair plant by June 15, 2005; handover of the Zvezda and Kojori communications relay stations (in the environs of Tbilisi) and other, unnamed installations by September 1, 2005; evacuation of at least 40 armored vehicles, including at least 20 tanks, also by September 1, 2005; handover of further installations, according to a mutually agreed list, in two stages, by January 1, 2006 and October 1, 2007; evacuation of heavy weaponry, including CFE Treaty-Limited Equipment, from the Akhalkalaki base by the end of 2006; complete withdrawal of forces from Akhalkalaki and partial withdrawal from Batumi by October 1, 2007; extension possible until the end of 2007 if weather conditions are unfavorable (this is understood to refer to convoying of equipment from Batumi by sea to Russia); and completion of the withdrawal from Batumi, along with closure of the Tbilisi headquarters of Russia's Group of Forces in the Transcaucasus, "in the course of 2008."

"Withdrawal Mode." From the moment of the agreement's signing, Russia's bases in Batumi and Akhalkalaki shall "*function in a withdrawal mode*," curtailing military training and preparing for evacuation of equipment and personnel. The immovable property is to be handed over to Georgian authorities "in its existing condition". Russian military personnel may opt for leaving the service to stay permanently in Georgia as civilian residents, along with their family dependents. In such cases, Georgia shall guarantee their title to the dwellings they currently inhabit.

Financial aspect: The sides shall "*jointly seek supplementary funding from external sources to cover transport expenditures in the course of withdrawal*." With this, Russia renounces its earlier demand for hundreds of millions of dollars to finance the relocation and accommodation of its forces in Russia.

Transit: Russia and Georgia shall in the course of 2005 reach an agreement on "*transit in the interest of Russia's Ministry of Defence through Georgia's territory in compliance with international law*." Such wording may refer to Russian weaponry to be relocated from Georgia to Armenia as a short-term arrangement, part of the evacuation of Russian forces from Georgia. But it would also apply to Russian troops and materiel moving between Russia and Armenia across Georgia as a long-term arrangement, for rotation and supply of Russian forces in Armenia or arms deliveries to Armenia. Russia clearly wants the latter type of arrangement.

Residual presence: "Anti-Terrorist Center." Under separate agreements to be concluded, Russia shall use the Zvezda station jointly with Georgia and continue using the Kojori station exclusively for an unspecified period of time. The Gonio training range, attached to the Batumi base, shall be handed over to Georgian jurisdiction on September 1st, 2005, to be jointly used by the two sides under a separate agreement. Some personnel and some installations of the Batumi base are to be used for setting up a Georgian-Russian Anti-Terrorist Center, again under a separate agreement to be negotiated⁶⁸.

Gudauta: The sides agreed to continue work over the launch of international monitoring of Gudauta base under the aegis of the OSCE. Russia claims it has already closed down its base in Gudauta, as envisaged by 1999 OSCE Istanbul treaty; however Georgian insists on international monitoring of the base to verify the fact of closure.

In the aftermath of the Joint Statement...

OSCE Chairman-in-Office Dimitrij Rupel said in a statement issued on May 31st that the organization is ready to conduct international monitoring of the former Russian military base in Gudauta, which is located in Abkhazia⁶⁹.

The Georgian and Russian sides agreed to sign a protocol on June 15, which will officially mark the end of the handover process of the Tbilisi-based Russian Armor/Tank Repair Factory to the Georgian side⁷⁰. According to the joint declaration between the Russian and Georgian Foreign Ministers, the mobile property at the Russian military bases, as well as other military facilities, should be removed from the territory of Georgia and the immobile property transferred to the Georgian side⁷¹. A convoy of nine Russian military vehicles crossed Georgia's northern border and moved into Russia on August, 1st after a more than a two-day journey from the Russian military base in Batumi in southwest Georgia. The launch of the withdrawal of a part of Russian armored vehicles from Batumi was scheduled to get underway on July 29, but was postponed by the Russian side, which cited the Georgian

⁶⁸ Vladimir Socor, « Breakthrough in Georgia-Russia negotiations on troop withdrawal », Eurasia Daily Monitor, volume 2, issue 108, June 3rd, 2005

⁶⁹ Civil Georgia, "OSCE Ready to Monitor Gudauta Base in Abkhazia" May, 31st 2005

⁷⁰ The 142nd Armor/Tank Repair Factory, which was built in 1942, was the only factory of this kind in the South Caucasus. But it has stopped operation two years ago.

⁷¹ Civil Georgia, "Tbilisi, Moscow Agree on Transfer of Tank Repair Factory", June 14th 2005

authorities' delay in issuing official documentation and visas to its troops⁷². The first column of wheeled equipment of nine headquarters and five accompanying motor vehicles left the gate of the military base in Batumi. The column arrived in Mtskheta and headed for Vladikavkaz by the Military Georgian Road to reach High Lars check-point where it crossed the Russian-Georgian border⁷³. The day after, a second military convoy, consisting of vehicles belonged to the Headquarters of the Russian Troops in the Trans Caucasus in Tbilisi, left Georgia. The echelon had been relocated at the Russian side of the Great Caucasian Ridge. A convoy of 9 military vehicles was scheduled to leave the Akhalkalaki military base on August, 5th, a Russian amphibious ship would withdraw military hardware from the Batumi base on August, 8th.⁷⁴ In addition, military equipment would be shipped from the Russian military bases stationed in Batumi and Akhalkalaki to the 102nd military base in Gyumri. 40 major end items were to due to leave Georgia in August, under bilateral agreements. 20 tanks and other tracked vehicles would be moved from Batumi by sea, 20 more tanks would be taken by railroad from Batumi and Akhalkalaki to Gyumri.

First Impacts on Georgian-Russian relations on the public diplomacy level

Georgian President Mikheil Saakashvili described at a news conference on May 30th the political agreement reached between Georgian and Russian Foreign Ministers over withdrawal of Russian bases from Georgia, as “a historic event” which will mark the end of “200 years of presence of Russian troops in Georgia » and added «*Georgia wants close, friendly relations with Georgia. Georgia will never create problems to Russia*»⁷⁵.

The President Saakashvili invited the President Putin to Tbilisi at a joint news briefing held after talks with the Russian Prime Minister Mikhail Fradkov on June, 3rd : “*We will possibly sign the framework agreement, but even if it does not occur [signing of this agreement], I will host Russian President with great pleasure* »⁷⁶. Georgian Foreign Minister

⁷² Kommersant, “Russian Troops Crawl out of Georgia”, August, 1st, 2005

⁷³ RIA NOVOSTI news agency reported on July, 30th 2005 that the convoy would pass through the Tskhinvaly Region and the Roki tunnel, which links North (Russian) and South Ossetia, crossing the Georgian-Russian border. “Russia starts withdrawal of military bases from Georgia.

⁷⁴ Civil Georgia, “Second Russian Military Convoy Leaves Georgia”, August, 3rd, 2005

⁷⁵ Civil Georgia, “Saakashvili Speaks of ‘Historic’ Moscow Declaration on Bases”, May 30th 2005

⁷⁶ Civil Georgia, “Saakashvili Wants Putin to Visit Georgia”, June 3rd 2005

Salome Zourabichvili stated that by signing the joint declaration over pullout of Russian military bases from Georgia, the two countries launched “*a new stage of relationship.*”

A few days after the joint statement on the withdrawal of the bases, Tbilisi hosted on June, 3rd the meeting of the heads of governments and senior governmental officials from the Commonwealth of Independent States (CIS). This first ever CIS summit held in Georgia was attended by a 100 member Russian delegation led by Prime Minister Mikhail Fradkov.

E. The Georgian-Russian Border perceived from both sides

Sharing a common border with Russia is perceived as a fatality in Georgia. Small countries sharing a common border with much stronger states enter into an asymmetrical relations. The imbalance becomes a major source of concern if the big neighbour appears unfriendly, eager to exert a flagrant pressure and traditionally not used to care much about the other's territorial integrity. The Georgian authorities does only control a part of the Russian-Georgian border after the “loss” of Abkhazia and South Ossetia.

The Georgian territory has been a military bridgehead for the rapid southwards expansion of the Russian Empire in the XIXth century. The Georgian Military Road has been of utmost importance for the Russian conquest and rule of Transcaucasus. Today the Georgian Military Road is providing the major land communication axis between Russia and Georgia. It links Tbilisi to Vladikavkaz and stretches over 210km. It runs up the valley of the Terek through the Gorge of Daryal. The road crosses the watershed by the col of Krestovy, known under the Georgian name of Juari and descends the valley of Aragvi to its junction with the Kura some 20 miles above Tbilisi.

The Georgian Military Road was put in good condition and fortified when, following the Treaty of Küçük Kaynarca in 1774, Kabarda and Ossetia passed definitively under Russian control. Russian military completed the road in 1799. Following the annexation of Georgia in 1801, the surfacing of the road was improved and finished by 1863. Russian military had been eagerly controlling the stability in Ossetia in order to secure the Georgian Military Road. The Caucasian Army remained dependent on this road from Vladikavkaz to Tbilisi even after the construction of the railway from Poti to Tbilisi at the end the XIXth . century. Turkish command of the sea made communication between Russian Black Sea ports

and Poti impracticable⁷⁷. Despite its severities, so well memorialized by Mikhail Lermontov in his *A Hero of our Time*, the Georgian Military Road played an important role in the development of economic relations between Russia and the Transcaucasus.

The second axis of communication between Georgia and Russia is the coastal axis running through Abkhazia. A motor-road and railway have been built by Russians in the second half of the XIXth century along the line of the Black Sea coast from Novorossisysk to Kutaisi and later to Batumi. The only railway linking the Central and Western Transcaucasus to Russia passes through Abkhazia. After it was closed due to the civil war, Abkhazia became a railway dead end railway communication between Russia, Georgia and Armenia were severed.

The Transcaucasian Highway connecting Russia and Georgia runs through Tskhinvali. After the construction of the Roki tunnel, the Ossetian highway has opened up a easiest road connection to Russia. Currently, Georgian authorities don't control the border crossing linking Tskhinvali to Vladikavkaz. The Transcaucasus highway has indeed become the only life-line connecting South Ossetia to the outside world and the main source of budgetary income for the unrecognized republic. The crackdown on Egneti market followed by a renewal of hostilities during summer 2004 shut down the road connection. The connection has opened, but border crossings are become far more difficult.

The Transcaucasus Highway and the phenomenon of Egneti market

The Transcaucasus Highway is the only life-line connecting South Ossetia to the outside world and a major communication axis connecting Georgia and Russia. Activities of the Egneti market constituted the lion's share of the South Ossetian economy. Almost 62% of the budgetary income came from the north-south transit traffic running through the South Ossetia. The market was characterized by a large flow of goods which were legal only in terms of South Ossetian laws and norms but were illegal in Georgia and Russia. The transit of any type of goods from north to south, or south to north found a demand at Egneti market. Businesses were connected with the delivery of goods from the Caucasus and the Middle East to the north or, in reverse, from Russia and other CIS countries to the south.

Trade relations between the two conflicting sides developed spontaneously on neutral territory between Tskhinvali and Georgian controlled villages of the Gori region after the ceasefire. These commercial contacts grew from the necessity of surviving in the regions caught up in conflict. The main location for the meeting of buyers and sellers was a small property close to the Tskhinvali-Tbilisi highway, near the village of Egneti. From 1999 onwards, the main

⁷⁷ For further details see W.E.D Allen, Paul Muratoff, *the Caucasian Battlefields, a History of the Wars on the Turco-Caucasian border*, The Battery Press, Nashville, 1953

direction of trade had been north to south. Traders didn't always take their products to Egneti in a physical sense, but the transaction of trade flowing through South Ossetia mainly took place in the market. Petrol and diesel were the main items of the north-south flows together with supplies of wheat, flour, foodstuff, construction materials, cigarettes. The south-north trade flows mostly involved agricultural products, mainly fruits.

The Georgian side reinforced its police and security checkpoints all along the border with the breakaway region. The situation is being described as an attempt to impose an economic blockade on South Ossetia. Apparently, only fruits are allowed to be imported.

Source: Vakhtang Dzhikaev, Alan Parastaev, "Economy and Conflict in South Ossetia", in From War Economies to Peace Economies in the South Caucasus, International Alert, 2004

The Kazbegi – Upper Lars crossing : the legal border post between Georgia and Russia

The Russian border is less than a four-hour drive north from Tbilisi. But the road is winding and difficult, as it cuts through mountains that reach their peak in Mt. Kazbek (16,558 feet). Known as the Georgian Military Highway, this historically strategic route disintegrates completely into dirt and rocks at its summit, the Jvari Pass. At many points, the road is carved out of sheer cliff faces and contains numerous built-in tunneled underpasses on the sides – a necessity, owing to the massive snowfall this area gets in winter. The Kazbegi crossing is known as the Upper Lars crossing.

Georgia's Kazbegi region is a sparsely-populated, sprinkled with tiny villages that culminate in the small town of Kazbegi itself, just a few miles from Russia. The proximity of the border means that the dilapidated shops in Kazbegi and its outlying villages are filled with Russian goods. Georgian farmers also send the majority of their produce north for export. The greater distance and geographical difficulties of communicating with Tbilisi – especially in winter, when the whole area is snowed under – mean that the locals must rely on their connections with their much closer neighbors to the north, and especially the regional center of Vladikavkaz. For remote mountain villages, having connections with nearby North Ossetia, over the Russian border, is necessary for survival. The Georgians of Kazbegi have long been trading with and visiting the Ossetians just over the border, and vice versa⁷⁸.

The Upper Lars crossing is of vital importance for Russian-Georgian land communication and for Armenian-Russian transit. The crossing can often be shut down

⁷⁸ Christopher Deliso, "Another Side of the Georgian-Russian Conflict", October, 28th, 2004, balkanalysis.com

because of either the weather or an unilateral decision of the Russian side. It had been closed for a couple of months after the tragedy of Beslan on September 1st 2004: in the wake of the attack, President Putin ordered the closure of Russia's border with the south as a security measure.

The Common Border: a Source of Concern for Both Sides

Georgia has the feeling to be threatened from the north

Its northern border is a source of concern for Georgia fearing a southward drive from Russia. It has de facto lost the control of the Abkhazian and South Ossetian portions of its border with Russia. With an considerable Russian interference in the conflicts zones, the military bases in Batumi and Akhalkalaki, bordering on its south a staunch Russian ally, Tbilisi developed the perception of being the only strip of territory preventing a new north-south military road from becoming operational. The successful integration of Adjara into the national orbit together with the announcement of the agreement reached on the withdrawal of the bases have considerably lessen this fear.

However, the Chechen, Ingush, and Dagestani sectors the Russian-Georgian is equally worrisome. From 2000 to 2004, the border was being internationally monitored. The OSCE's unarmed Border Monitoring Operation (BMO) officially an confidence building measure had been patrolling and reporting on the Chechen portion of the border.

Russia had exercised its veto power to terminate the BMO as of December 31st , 2004. Moscow first argued that the BMO had been ineffective, as well as too costly to the OSCE budget, and must therefore cease. More recently, it claimed that the BMO had fulfilled its tasks, managed to improve the situation on the border, and was therefore no longer needed. Moscow contended that Russian and Georgian border guards and intelligence services cooperate well with one another, and could henceforth protect the common border on a bilateral basis, without an international presence⁷⁹. Moscow now proposes forming a purely bilateral Russian-Georgian border police force, albeit with Western financing, in place of the BMO. Georgia fears that, without an international presence, Russia would, by pretending securing the border from terrorism infiltration, demand to undertake surveillance of the Georgian side. This fear is based on a precedent: in the summer of 2002 Moscow publicly

⁷⁹ Statements of the Ministry of Foreign Affairs of the Russian Federation, Itar-Tass, December 30, 31; January 1st, 2005

threatened of military intervention in Georgia based on its concerns over the link between radicals in the Pankisi Gorge and those fighting in Chechnya.

Georgia had asked the EU to take over the border monitoring mission from the OSCE. After sending a needs-assessment team to Georgia, the EU decided to take into account Russia's sensitivity to an international presence across its border⁸⁰.

On April, 14th in Vienna, the OSCE's Permanent Council approved a Training Assistance Program (TAP) for Georgian Border Guards to replace the OSCE's Georgia Border Monitoring Operation (BMO). TAP has a budget of only USD 2.8 million - compared to the defunct BMO's annual USD 15 million- and its implementation was to start on April 18th, 2005, and last until December 31, 2005. At Russia's insistence, the OSCE has barred TAP from conducting border-monitoring activities. TAP is administered by the OSCE's Mission to Georgia⁸¹.

Russia's need to secure its southern border

Russia feels the pressing need to secure its southern border. Georgia has recently increased the number of its border guard units at the border with the Russian Federation in an attempt to prevent illegal cross-border movement during the summer period. Border security has mainly been boosted on the Chechen, Daghestani and Ingush sections of the Russo-Georgian border, the operation called *Shelter-2005* is expected to last until autumn⁸². The tightening of the security on the Georgian-Russian border was presented by President Putin during a visit to Daghestan, in July, 2005, as an obligation towards the EU. He was reported as saying : "*The strengthening of Russia's southern border is important for not only Russia's security but that of Europe. We are building a common space with Europe and our reliable southern border is our obligation to it*"⁸³.

Russian Defence Minister Sergey Ivanov announced the formation of two mountain rifle brigades at the Russo-Georgian border to ensuring security on the border after the Russian military bases are withdrawn from Georgia. The brigades equipped with special armaments and modern helicopters, staffed with army contractors would assist the border

⁸⁰ Vladimir Socor, « Axing the BMO, Russia menaces Georgia », Eurasia Daily Monitor, Vol 2, issue 2, January, 4th, 2005

⁸¹ Vladimir Socor, "Time short, options narrowing, call needed for a new Georgia BMO", Eurasia Daily Monitor, February, 22th, 2005, vol 2 issue 36

⁸² Civil Georgia, "Georgia Boosts Border Security with Russia", June, 16th, 2005

⁸³ RFE-RL, « Putin says fortifying southern border is Russian obligation to Europe », July, 17th, 2005

guards. According to the Minister approximately USD 83 million have already been allocated from the Russian budget to finance the formation of these new brigades. It has been earlier announced that an important part of servicemen and equipment withdrawn from the basis will be affected to these new brigades⁸⁴.

Georgia Train and Equip Program (GTEP)

In May 2002, the U.S. initiated the Georgia Train and Equip Program (GTEP), costing USD 64 million, which is the largest and most significant political and/or military assistance program, to date. The two-year program is aimed at enhancing the counterterrorist capabilities of the Georgian army, and helping to alleviate tension between Georgia and Russia that was caused in part by Tbilisi's apparent inability to deal with the gangs of Chechen and other militants basing themselves in the Pankisi Gorge. The program itself features a time-phased training program that is conducted in-country in close cooperation with the Georgian MoD, with its key focus on training the Georgian 16th Mountain Battalion, 113th Light Infantry Battalion and 11th Motor Rifle Brigade.

F. Georgia's Euro-Atlantic Bid and the importance of the Turkish-Georgian border

Georgia's Euro-Atlantic bid

The Euro-Atlantic integration process has become a national priority for Georgia. Accession to NATO and EU are set as the strategic objectives of the foreign and security policy. The Individual Partnership Action Plan (IPAP) is indeed the most comprehensive and in-depth reform process. The reform process is being supported across the board by the Georgian political elite and a large majority of the population. The Euro-Atlantic integration is a clearly defined and openly stated national strategic choice. On September 13th, 2002, the Georgian Parliament passed a resolution confirming the political aim of eventual NATO membership⁸⁵. Georgia has first declared its intention to become a NATO member at the NATO Prag Summit in 2002. This policy priority provides the ground for justifying Georgians' willingness to cut their adrift from Russia. The belief that Georgia "*cannot be with Russia, if it wants to be with the EU and NATO*" appears firmly rooted. Georgian Defence

⁸⁴ Civil Georgia, "Ivanov: New Army Brigades in North Caucasus to Protect Border", July, 6th, 2005

⁸⁵ "[T]he Parliament of Georgia confirms that all the major political forces of the Parliament support the full membership of Georgia in NATO and recognizes that this decision is a historic choice of Georgia, justified by the will of the people, and considers that the aforementioned issue will not become the subject of further political debates. The Parliament of Georgia declares that Georgia carries out the process of reforms in the spheres of politics, economics and security, so that the country in the nearest period can satisfy the criteria necessary for NATO membership."

Minister Irakli Okruashvili, announced that Georgia plans to apply for a NATO Membership Action Plan (MAP) in autumn, 2006, after the implementation of those reform targets which are set by the NATO Individual Partnership Action Plan⁸⁶.

The Action Plan is described by the Georgian Ministry of Defence⁸⁷ as “*an overall reform process in which the political part is not separated from the military part*” and as “*an everyday routine work*”. It has indeed a comprehensive scope. The Georgian IPAP was released end June, 2005⁸⁸. Beside the strengthening of defence capabilities and large-scale defence reforms, the document enclosed chapters related to good governance, development of democratic institutions and in-depth economic reforms. The Action Plan integrates a regional scope though not much developed. Georgia is committed to develop good-neighbourly and constructive relations with all its neighbours. Georgia expresses the wish to promote regional co-operation in the South-Caucasus and in the Black sea region. Co-operation with Azerbaijan in the field of energy transportation is presented of particular importance.

Georgia’s commits itself to take part in the international fight against terrorism by offering its air space and airfields to support the international coalition during the campaign in Afghanistan, exchanging information with Allies and Partners, carrying out enhanced border control and policing measures. Georgia will review national stockpile of ammunitions and small arms and light weapons to ensure appropriate security and safe destruction of surplus stocks and develop pipelines security measures. Georgia binds itself to develop democratic control mechanisms of the armed forces and ensure that democratic rules and principles are being implemented in the reorganization of the Georgian defence and security system. The improvement of the efficiency and monitoring of the defence expenditure is equally important. According to the Ministry of Defence, military spending represents the second budgetary post. For the next five years, the part of the military spending in the national budget is estimated at 5%, with an important part to be allocated to the development of infrastructure.

Georgia intends to build a democratic state, guaranteeing the rule of law and respect for human rights. It will bring national legislation on human rights in line with International Standards by continuing to harmonise its legislation with the EU and Council of Europe

⁸⁶ Civil Georgia, “Okruashvili: Georgia Plans to Apply for NATO MAP Next Autumn, June, 20th , 2005

⁸⁷ Interview MoD

⁸⁸ Civil Georgia “Georgia’s Commitment Under the Individual Partnership Action Plan (IPAP) with NATO – 2004-2006”, June, 28th , 2005

standards. The Georgian Government is also determined to combat corruption and will elaborate anti-corruption strategy and preventive programs and monitor their implementation in cooperation with GRECO (Group of State Against Corruption) and OECD (Organization for Economic Collaboration and Development). In this regard, prevention of misappropriation of the public resources and illegal interference of administrative structures in business will be given special attention. Georgia intends to establish a functioning and transparent market economy therefore a structural reform process will be undertaken in the field of, among others, the management of public enterprises, privatization, state procurement, competition policy, statistical records of tax collection

The Action Plan acknowledges that the frozen conflicts in Abkhazia and the Tskhinvali Region (South-Ossetia) hinder the stable development of the country and pose a threat to the internal and international security. It is noteworthy that the military option is ruled out. The Georgian Government commits itself to solving these problems by peaceful means, in co-operation with international organizations in accordance with appropriate international standards. The action of the government will focus on to determine “*the Status of Autonomous Entities; facilitation of the return of Refugees and IDPs; rehabilitate the conflict zones*”.

A specific chapter of the Action Plan is dedicated to cross-border initiatives aiming at contributing to regional security. The implementation of the Istanbul CFE related agreement is listing among cross-border actions, together with the development of an integrated water management, and the OSCE’s monitoring and management Science for Peace Project for the rivers bordering the Caucasus countries.

Georgia’s External Relations According to the draft National Security Concept

The United States – “Georgia continues its strategic partnership with the United States,” the draft document reads and praises the political, military and economic assistance the U.S. has provided to Georgia in the past decade.

Ukraine – “A new era of bilateral relations” have been launched between Georgia and Ukraine, described as a “strategic partner,” after Georgia’s ‘Rose’ and Ukraine’s ‘Orange’ Revolutions, according to the draft document.

Turkey – is Georgia’s “leading regional partner.” Relations with Turkey are described as a “strategic partnership,” according to the document.

Russia – “Georgia aspires for a cooperation with Russia which is based on principles of neighborly relations, equal rights and mutual respect,” the document reads.

Azerbaijan – Joint energy, transport and communication projects has fostered the creation of a strategic partnership between Azerbaijan and Georgia.

Armenia – “Georgia has pragmatic cooperation with Armenia in all fields which are of mutual interest,” the document reads.

In respect to regional security, the document reads that developments in the Black Sea and Caucasus regions, as well as developments in Russia, are of special importance for Georgia. The draft Concept of Georgian National Security also mentions the GUAM (Georgia, Ukraine, Azerbaijan and Moldova) in the context of cooperation within the Black Sea region.

The role of Turkey, the Neighbouring NATO country

The agreement on military cooperation between Turkey and Georgia was signed in 1997. Since 1998 the Turkish side has donated USD 37.4 million to the Georgian armed forces. Representatives of the Georgian and Turkish Defence Ministries signed an agreement on June, 9th, 2005 in Tbilisi which will provide USD 1.5 million worth of Turkish assistance to the Georgian armed forces⁸⁹.

Turkey is providing training for Georgia’s Commando Battalion. Turkey’s security assistance to Georgia also includes sponsorship of the reform of the Military Academy along similar lines to the Turkish General Staff Academy. It has financed, with the exception of salaries, the participation of the Georgian platoon in Kosovo.

The training facilities at Vaziani were renovated in 2003 through U.S. and Turkish bilateral assistance, are considered by NATO to meet Western standards and hosted multinational military exercises in 2002 and 2003. Its Kopitnari and Marneuli airfields, part of its PfP assets available, have witnessed improvements, particularly the Marneuli airfield which has undergone significant modernization (to NATO standards) by Turkey, including a runway repaving and extension and the replacement of the airfield’s electrical system. One key PG was the creation of a peacekeeping battalion by 2004. Since 1999, Georgia has participated in the KFOR mission in Bosnia with a platoon (43 personnel), placed under the operational control of the Turkish battalion.

⁸⁹ Civil Georgia, “Turkey Grants USD 1.5 Million to Georgian Armed Forces”, June, 9th 2005

The BTC project shapes the regional security system under the Turkish aegis

At the same time that Turkey was gaining support among regional countries for her preferred pipeline choice, she has also been increasing her security ties. Azerbaijan and Georgia launched a major campaign to expand their military and security relationships with the Alliance. Azerbaijan has invited US, NATO or Turkey to establish a military base, membership for its role as a bulwark against Russian expansionism. Both Azerbaijan and Georgia have expanded military contacts, training and exercises with Turkey and have proposed cooperation with NATO in protecting oil pipelines.⁹⁰ Georgia has requested NATO technical assistance in the protection of these pipelines. Georgian Parliament passed two resolutions endorsing Georgian membership in NATO while at the same time requesting Russia to withdraw its bases from Georgian military bases.⁹¹

The warming of the Turkish-Azerbaijani relations was particularly visible on the military area. Since 1996, Turkey has been actively engaged in the training of Azerbaijan's military officers, has helped to modernize the Azerbaijani military education system to bring it in line with NATO standards. Baku propositioned Turkey to expand its already large program of foreign military training and cooperation with states across the region to include guarding the pipelines through Azerbaijan. In March, 1997, Turkey and Georgia signed an agreement on military assistance and cooperation for the construction of military training centers in Kodori and Gori, of a shooting range outside Tbilisi, and for the reconstruction of the Vaziani military base. Georgian military personnel have been studying at Turkish military establishments since 1998. Azerbaijani and Georgian peacekeeping units have been participating in the KFOR in Kosovo as part of the Turkish battalion.

On April 29th, 2002, the leaders of Turkey, Azerbaijan and Georgia met in Trabzon to discuss energy cooperation, fight against terrorism, drug smuggling and human trafficking and agree on a Security Pact. According to the agreement signed in Trabzon⁹², each of the three countries commits itself to ensure the safety of the pipelines, BTC and Baku-Erzurum gas pipeline on their respective territories, and to establish coordination structures to ensure the safety of the East-West energy corridor.

⁹⁰ Foreign Minister Vilayet Guliyev: "Azerbaijan to apply for aspirant status in NATO cf. Jamestown Monitor, vol VI, n°12, January 18, 2000.

⁹¹ Shevardnadze: "Georgia will be knocking on NATO's door within 5 years", Financial Times, October, 25, 1999, Andrew Jack, David Stern, "Georgia plans to seek NATO membership".

⁹² "Agreement on combating terrorism, organized crime and other major crimes among the Republic of Azerbaijan, Georgia, the Republic of Turkey"

This agreement is perceived as a prerequisite for closer security cooperation and is the immediate result of Turkey's plans to enhance military cooperation with both Georgia and Azerbaijan. The agreement states that *'the joint efforts in the security field do not target any third party'*, the cooperation remaining open to every country willing to join it. The conclusion of the Trabzon summit coincided with the arrival in Tbilisi of 18 American military advisers due to train Georgian soldiers in anti-terrorists operations. The total number of advisers is to reach 200 persons. The so-called *"Georgia Train and Equip Program"* is likely to pave the way for international cooperation in ensuring the safety of future energy supplies route. Indeed the way to ensure the safety of the pipelines is part of the US training program.

The three partner countries attempted to enshrine their willingness to cooperate in a BTC related official document. This process led to the signature of the *'Protocol among the Republic of Azerbaijan, Georgia and the Republic of Turkey relating to the provision of security for the East-West energy corridor'*, on July, 23rd, 2003. South Caucasus natural gas pipeline (SCP) and the Western route early oil export pipeline (WREP) are the key components of the East-West energy corridor. The 1st Chapter of the Protocol deals with cooperation in government security.

Chapter 1: Cooperation in government security

Article 1: The parties shall cooperate in identifying and classifying potential security risks resulting from or related to accidental interferences, terror, intentional acts of sabotage, other criminal acts and shall accordingly come up with a common list of potential security risks.

Article 5: The parties shall exchange information and share experience with regard to methods to combat acts constituting a potential security risk to the energy corridor and shall carry out jointly agreed studies on this subject.

Article 6: The parties shall cooperate in the mutual training of members of security units involved in pipeline security and to this end they shall exchange information and experience on arms, materials and technical equipment used for this purpose.

Article 7: The parties shall establish a joint pipeline security commission comprising their relevant authorities in order to review the cooperation carried out with regard to the provisions of this Protocol and identify and rectify its deficiencies. The Parties shall notify the norms of the members of their respective pipeline security commission to each other; the joint commission shall meet alternatively in the three countries.

PART III

Cross-Border Interactions on NATO's South Eastern Border

1. Sarp / Sarpi crossing and the integration process between Adjara and Turkish Eastern Black Sea region

A. The fall of the Iron Curtain and the opening of the Sarpi border crossing

Historical perspective

The port and fortress of Batumi occupy a very strong natural position. Surrounded on the east and north east by the precipitous forested mountains of Acaristan, Batumi is approachable only from the north along the narrow foreshore of the Black Sea. The natural difficulties of the approach were in 1877 increased by the warlike character of the inhabitants of the adjoining mountains. The Ajars, who speak a Georgian dialect, had been converted to Islam during the latter part of the 16th century and like the Bosniaks in the Balkans, remained fanatically loyal to the sultan caliph. During Paskevic's campaigns the Acar had constituted a formidable irregular force which proved to be the main support of the Turks on the Black Sea coast and around Akhaltsikhe. At the end of the 1877 Turko-Russian war, the Turks remained in possession of Batumi during the armistice period, the Russians in spite of repeated attempts had been unable to capture Batumi.

This town with its potentially valuable port passed to the Russians only after the Berlin Congress. The successful defence of Batumi proved to have strengthened the position of the Turks at the Berlin Congress. However, Eager to limit Russians gains in the Balkans where Turkish forces suffered serious defeats, the European Powers pressed the Turks to cede Kars, Ardahan and Batumi in the Treaty of Berlin signed in 1878.

After the First World War, in the Treaty of Moscow of 1921, Turkey renounced to Batumi, the Soviet government agreed to cede the districts of Igdir and Tuzluca under Russian control since 1828.

The demarcation of the Turkish-Soviet border in the 1920s ran through the village of Sarp/Sarpi. Peasants could freely cross the border to tend their farms or visit relatives until

1937 when, after an uprising on the Soviet side, it was sealed by a barbed-wire fence and the local leaders of Turkish origin were sent to Siberia⁹³.

It used to take two to three months to send a letter from Sarp to Sarpi. To visit one other, villagers had to make an arduous two-day journey through the Dogu Kapi border crossing, if permission was granted. There is now only one legal crosspoint at Kars, 150 miles south to here. Villagers had to travel via Moscow to attend funerals at the other side of the curtain. Sarp's division through the demarcation of the border during the founding of the Turkish republic in the 1920's was cemented for its 900 strong population – 600 villagers live on the Turkish side, years before another more tangible concrete wall divided Berlin⁹⁴. The border villages of Sarpi and Gogno were part of the restricted zone. One needed a special permission – a propiska to be allowed to enter the area. Residents of these villages needed as well the propiska to travel even inside Adjara and be allowed afterwards to go back home.

Sarpi was considered as the most sensitive border of the USSR. It was neighboring Turkey and NATO, was the Soviet gateway to the Black Sea and to the warmer seas. A navy academy, important land forces and the naval air service, based in Batumi, were the important components of the Soviet defense system facing the third Turkish army. The Turkish Consulate in Batumi, opened as soon as 1920, never closed. In 1919, there were 20 consulates in Batumi, they all closed except the Turkish consulate. This very fact highlights the specificity of Turkish-Soviet relations and the impact of the geographical proximity. Till 1988, all countries conducted their consular affairs from Moscow. Ukraine has just transferred its consulate from Poti to Batumi, and has been therefore the second country which is represented in Batumi.

Economic situation

Seized by the Russian empire in 1878, Batumi became a hub of the Transcaucasian economy following the construction of a railway (1883) and an oil pipeline (1897-1907) that

⁹³ Jim Bodgener in his article «Glasnost penetrates old enmities on Soviet border» published in the Financial Times on June, 17th, 1988, described the border region as follows: «Borders have a strange fascination, arbitrary lines politically or culturally imposed upon an often uniform landscape. None perhaps more so than at Sarp, a bifurcated hamlet in a small, wooded cove between the Soviet Union and Turkey on the south-eastern Black Sea shore. It seems a forgotten, peaceful backwater, yet this closed border crossing is a focal point of relations between the Soviet Union and Turkey, a key member of the NATO on the alliance's exposed southern flank».

⁹⁴ Howe, Marvine; «Ambivalently, Turkey Builds Road to Soviet», New York Times, 13 juin 1982

connected the port to Baku on the Caspian Sea. Economic growth continued until the start of the Soviet era with the construction of several factories and an oil refinery.

In the early times of the Soviet times, the port of Batumi played an essential role for the shipment of the Azerbaijani crude and oil products in the whole Caucasus. It remained a major distributor of oil products until the end of World War II, after which Azerbaijani supplies were overshadowed by Siberian oil and gas, transported through Novorossisk or Odessa.

The special status of the Turkish-Georgian border impedes the development of the Batumi port. The Turkish-Soviet trade was being conducted through the Russian and Ukrainian ports. As a matter of fact, Batumi lost its external maritime connection, and Adjara became an inward looking region attracting wealthy Soviet tourists. The Soviet Union became its only vista. Nevertheless the Autonomous Republic of Adjara its prosperity thanks to agriculture, producing tea and citrus fruits for the whole Soviet Union.

When Georgia gained independence in 1990, a new era also began for Adjara. After a 70-year closure, Batumi dreamed of becoming a window on the outside world. Since independence, Adjara has been one of Georgia's most peaceful regions and has made great strides toward economic recovery. The crossborder traffic with Turkey has been beneficial to both sides, and for Georgia as a whole, while the transit trade towards Tbilisi, Caucasus, southern Russia and Central Asia provides a major source of income. A number of maritime connections have also been established with Trabzon, and two major railway stations and customs areas have been constructed.

Opening of the Sarpi border crossing

The opening of the Sarpi border crossing in 1988 was an historical event. The Adjarians still remember the 17 km long queue starting from the Gogno Fortress to Sarpi, people all over the Soviet Union gathering to Batumi to go into Turkey.

The Adjarians noticed that Turks were paying special attention to Georgians in the queue lines. Beyond any doubt, Georgians had a greater cultural proximity with Turks in comparison to other USSR citizens. The early times of the border crossing gave birth to deep human stories but very soon the need for economic survival shadowed the emotions of reunions.

The opening of the frontier at Sarp was warmly anticipated by officials and business people on the Black Sea coast and the Trabzon Chamber of Commerce, in particular, had lobbied hard over the issue. In 1990, a total of 146,000 people crossed into Turkey, mostly to

trade or to shop, though some came to visit relatives separated since the early years of the 20th century. Sarp was also gateway to the other Transcaucasian republics.

Le Monde, September, 2nd 1988

Reopening of the border post between Turkey and the Soviet Union

The border post Sarp/Sarpi, connecting Turkey to the Soviet Union, sealed since 1937, opened on August, 31st. Official delegations of both countries attended the opening ceremony. The Turkish minister of transports, Ekrem Pakdemirli, convinced that the closure of the border post in 1937 was a mistake, stressed that its opening would boost trade and tourism between the countries. According to the Prime Minister of the Socialist Republic of Georgia, M. Otar Tcherkezia, the reopening of the border post is the effect of the policy of perestroika carried out by Mikhaïl Gorbatchev. A 12 km long bridge was built to ensure the linkage between the two sides of the river. (AFP)

AFP – December, 5th 1990

The detente between Moscow and Ankara revealed by the visit to Moscow of the Turkish Prime Minister in 1988 led to the reopening of the border posts. The agreement of 1984 on natural gas supplies in exchange of mainly Turkish foodstuff boosted the Turkish-Soviet trade. Initially at USD 500 million, the bilateral trade turnover is expected to reach in 1990 USD 1,5 billion. According to the governor of Kars, border city with the USSR, preparations for the opening in 1991 of a border post between Turkey and Nakhitchevan have been speeded up. This border post near Aralik will become the third border crossing between Turkey and the Soviet Union to open since the warming up of East-West relations.

The post-revolutionary context

The Abashidze period, short review

Aslan Abashidze, the descendant of the governor of Batumi during the Ottoman period, took hold of the Autonomous Republic of Adjara at the accession of Georgia to independence and established a highly authoritarian regime. Adjara was ruled as a patrimony of the Abashidze family. Control of the transit revenues of Sarpi/Batumi border post and the Batumi port gave important leverage to the Adjarian authorities. Conflicts between Batumi and Tbilisi over distribution of customs income were a major impediment to growth in the transit trade, particularly from 1991-1995 when Georgia established a secondary customs control point on its internal border with Adjara in order to levy some income from the traffic. Nevertheless, the Adjarian regime had never completely severed relations with the central government. Politically backed by Russia, economically leaning on Turkey, Batumi was keen on maintaining a balance between Turkey, Russia and Tbilisi. Aslan Abashidze's regime had been successful in preserving the Autonomous from the violence of the Georgian civil wars, and Adjara remained a peaceful and calm place in the during the 90's. The Abashidze regime

used to spend important amount of money to make Adjaria an esthetically pleasing place. Luxurious villas and totally unfunctional buidings were spreading. The botanical and zoological gardens were remarkable. The regime was also keen in organizing some PR events as a women' open tennis championship. The occasional visitor used to be struck by the special protection forces surrounding official buildings and the luxurious cars of Aslan Abashidze's son.

The early aftermaths of the revolution

The re-integration of Adjaria has been one of the major achievements of the Sakaashvili government. A sense of relief is widespread among the Adjarian population. Assessments of the lost of 14 years of bad governance is well engaged. The Abashidze regime was strongly disliked. Nevertheless, the events which led to the ousting of Aslan Abashidze had deeply frightened the population. Fears of a civil war increased especially when the bridges were blown up although the opinion that Adjarians wouldn't have fought against Georgians is openly expressed. This opinion is based on the perception of an imbalance of power between Adjaria and Georgia and especially on the fact that there is no ethnic divide between the two populations. No one anticipated that Aslan Abashidze would leave that fast. The belief that Turkish support had prevented the escalation of violence is widely shared: the population had a sense of having been protected by Turkey, sitting at doorstep carefully monitoring events and ready to send troops.

A much greater sense of security and normality is prevailing in Adjaria. A highest degree of proximity with Tbilisi is palpable. The early aftermaths of the Adjarian revolution had been a dreadful experience. The total collapse of a highly authoritarian regime left people without any landmark. General suspicion and fear were widespread, as the new rules haven't been immediately understood. The launch of a fight against corruption exacerbated the sense of persecution. All those who managed to have a livelihood in the old system were potential suspects. Some SME, Tukish-Adjarian joint ventures, hadn't been spared. Businessmen were charged to legalize their activities. The belief that half of the sum charged went to the pocket of the fiscal agent is widespread, which is harmful in building trust.

Officially, the money is supposed to go to the Georgian treasury. Dozens of former top officials and businessmen accused of tax evasion were already being investigated and jailed. Many were subsequently freed after they paid large fines. Not all fines entering the Adjarian account come from former high-ranking officials. A group of customs officers serving at the Sarpi checkpoint on the border with Turkey paid a total of 10,000 dollars to avoid further

detention after they were accused of allowing a freight consignment to cross the border without the proper formalities being completed. As the top officials in the security agencies are from Tbilisi, some have the impression that punitive units being dispatched.

Turkish actors from the neighboring regions were used to deal directly with Batumi, the geographical proximity was strengthening the sense of trust. However, the improvement above all of security conditions on roads, especially to Tbilisi, is very much valued.

The issue of the division of properties between Tbilisi and Batumi and the privatization process

Once beyond the control of the central government, today Adjara is in a different spotlight and at the center of the government's new drive to attract investment, domestic and foreign. At the initiative of Prime Minister Zurab Zhvania, head of the Taxpayer's Union Badri Patarkatsishvili lead a 30-member delegation of businessmen to Adjara in May, 2004 where they discussed economic priorities. But at the president's directive, the Georgian Presidential Coordination Council has spent the last month trying investigating the financial status of all local enterprises and state structures located in the Autonomous Republic Adjara. The so called aggressive privatization program was first launched in Adjara before the end of the daunting task of identification of entities which fall under the local authority or the central government. A massive reconstruction plans for Adjara's infrastructure, including roads, bridges and tunnels was announced . The Georgian Ministry of Economy intends to provide the local population in Adjara with information and opportunities for small business development and partnerships. To this end the ministry and international companies held a conference in Batumi in 2004, together with several banks operating in Georgia, on the development of micro-finance services such as credits and loans in the region.

Transfer of wealth to Tbilisi resulting from the sale of properties and commodities owned by the Abashidze had negative psychological effects. The local population has got the feeling of being spoiled. The central government seems too distant; consequently fears of being forgotten is widespread. The inexistence of a legal base for the division of properties between Tbilisi and Batumi led to almost a total transfer of assets generated by the privatization process⁹⁵ to the central budget. Officially, the total amount of the privatized assets of Adjara is USD 1,5 million. This amount, only including small commercial places, is

⁹⁵ The so called aggressive privatization program was first launched in Adjara.

indeed a very small portion of the privatized assets. In a context of lack of clear separation between what is owned by the central government and what is owned by the Autonomous Republic, mayor part of the income generated by the privatized assets is transferred to the central budget without distinction. Incidentally, the Intourist hotel, first privatization bid realized in Adjara in September, 2004, was sold for USD 3.2 million to a Russian investor with Georgian origin. Since the launch of the first stage of privatization, 21 facilities have been sold through an auction in the Adjara Autonomous Republic at the end of 2004. The Ministry of Economy has welcomed the process as "successful." The law on the division of properties, under negotiation, will grant 35% of the value to Adjaria and 65% to Tbilisi.

B/ Adjaria's Gates

Economic and financial important of Adjaria's gates : Sarpi border crossing, oil terminal and Batumi Sea Port

Turkish relations are highly prized in Georgia and it has played a major role in helping it achieve some form of economic independence after the break-up of its traditional trading network. The opening of the border at Sarpi/Batumi clearly had a huge impact since it brought Georgia an opening to the world outside.

Adjara, with its cash-rich Sarpi customs at Turkish border, Batumi port and oil terminal, is Georgia's economically strategic region. Georgian government's success in Adjara increased its hopes for reviving country's economy following return of the cash-rich region to Tbilisi's control. As a result of abolition of the Choloki administrative border between Adjara and the rest of the country, Georgia's economic potential has significantly increased. Adjara, whose contribution to Georgia's entire GDP exceeds 9%, totaling USD 450 million, was cut off from Georgia's economic space for past 13 years. Decade-long tax row between Tbilisi and Batumi is put to an end. Abashidze's regime refused to transfer taxes to the central budget, causing permanent disputes with Georgia's central government.

West Regional Customs

The Regional West Customs were created on August, 2nd, 2004 after the integration of Adjaria. Previously, Adjaria was separated from the West Customs. Currently, the whole country is divided in "Regional West" and "Regional East Customs". The West Regional Customs include the port of Poti, the port of Batumi and the Sarpi border crossing. The

regional direction is based in Batumi. Customs zones are located in Batumi, Poti and Kutaisi. The activities of the Batumi, Kutaisi and Senakli airports are also covered by the West Regional Customs.

Customs revenues

The share of the west regional customs in the customs revenues is 35%. This figure is low because most of the customs clearings done near the location of the company, mostly in Tbilisi, commodities are in transit regime in Adjara. During the Abashidze period, the customs clearance was done in Batumi. Officially it was said that 40% of the revenues was left to Adjara and 60% sent to Tbilisi. Currently all customs revenues are directly sent to Tbilisi⁹⁶.

Sarpi, the most active border crossing in Georgia

Sarpi is the most active border crossing of Georgia. The improvement of the border crossing procedures at Sarp/ Sarpi, in such a short period of time, is remarkable. The fight against corruption, launched 10 months ago, have been quite successful. The increase of salaries and the special care for custom officials proved very efficient tools. Georgian customs authorities are participating to some international programs, are cooperating with the US⁹⁷ and Turkey. Georgian customs officials express the wish the cooperation with their Turkish counterpart be carried on a more equal footing. For instance, Georgian officials are very experienced in clearing ships. The Georgian customs officials are also seriously complaining about Turkish *laissez-faire* in the case of cargo trade, a more professionalized way of shuttle trade, done by trucks, transporting all kind of commodities and paying a fixed customs duty.

The Greenoak Holding : the Batumi Oil Terminal

The Greenoak holding has a tremendous importance in Adjara, is more than a holding, highly involved in all areas, detains all outlets⁹⁸. The Greenoak Holding got involved in Adjara with the privatization of the oil terminal in 1990. The terminal was producing 3 million tons/year in early 1990's, is currently producing currently 9 million tons / year. It employs 2500 persons. All facilities of the Batumi Sea Port belong to the group; the state

⁹⁶ "Nothing is left for us!"

⁹⁷ training seminars, Georgians customs officials sent for training to the Mexican border, now training in Tbilisi

⁹⁸ Interview with Mogens Hansen / Batumi, www.greenoakholdings.com

owns the lands. Greenoak has also built the road to the terminal. 50% of the railway capacity is used by the company for oil transportation.

Oil Terminal

Batumi Oil Terminal is the largest Georgian oil export outlet on the Black Sea, transshipping crude oil and refined products and has been in operation since the late 1800s. Batumi is a key export point for crude oil and refined products coming from the expanding production sources of the Caspian Sea region. The company serves the needs of a broad group of producers, refiners and traders in the region by receiving, storing and loading up to 17 different products. The oil is exported to the Black Sea, Mediterranean Sea and throughout Europe. In August 1999, the Greenoak holding acquired an oil transshipment facility in Batumi in a privatization. The throughput of the terminal has increased three times and the Terminal has been completely rebuilt and modernized at a cost of more than USD 60 million. The Terminal's transshipment capacity is currently 12 million tones per annum. It possesses a total storage capacity of over 510.000 tones, the range of handled products includes 8 types of crude oil and 15 different refined oil products. 212 rail tank cars can be unloaded simultaneously at the terminal's discharge estacadas. The terminal operates three jetties and one coastal buoy mooring (CBM).

The impact of the BTC

Managers of the oil terminal believe that the impact of the BTC on the activities of the terminal will remain limited. The terminal can indeed deal with 17 different products, therefore there will always be a need for the terminal as it is impossible to transport different sort of products through a pipeline. The fact that the contribution to the state budget of the terminal is greater than what will be the contribution of the pipeline is being underscored.

The Kabuleti power plant

Besides, its core activities, the holding invested in a power plant in Kabuleti. Despite an initial investment realized, but the project stopped in 2003 due to the lack of further investment and to the political instability in Adjara. The Batumi Oil Terminal has already invested over USD 25 million in the project. The power plant will have a capacity of 72 megawatts, more than the needs of Adjara which pinpoints to the possibility of exporting to Turkey. A decision to restart the construction of Kabuleti Power Plant was taken after a series

of discussions with officials from the Georgian government. The Batumi Oil terminal will complete the power plant, bringing the total investment to more than USD 50 million. Electricity supply is expected to be available to the Georgian grid in November, 2005, thus providing Georgia with electricity by the beginning of the winter season.

Batumi Sea Port

The Batumi Sea has been active over a century and has been specialized in the shipment of oil products. The completion of BTC highlights calls for the diversification of the activities, and especially the development of container transportation. In the 90's, Batumi suffered from the competition with Poti. The Georgian government preferred to channel the international funds to the modernization and development of Poti because of the political conflict with the Adjarian regime. The port of Batumi is endowed with many assets, and has therefore an important development potential. The railroad connection goes into the port. Batumi is a deep water port and therefore accommodate big ships. The port can handle dry cargo vessels with DWT up to 50 000 tons and oil tankers with DWT up to 110 000 tons. The port has five terminals: oil terminal, container terminal, dry cargo terminal, railway-ferry terminal, passenger terminal.

The development of the regional connections of the port is of utmost importance. The Batumi port has connections with Bulgarian, Romanian and Ukrainian ports. Surprisingly, it hasn't got yet any connections with Turkish or Russian port. Works is in progress. A ferry connection for the transportation of passengers was recently established with the Turkish port Hopa⁹⁹. The establishment of a roro and passengers transportation connection between Trieste-Istanbul-Batumi is an the agenda.

C. Increasing cross-border contacts with Turkey, developing joint economic projects

Batumi is being for the first time in history integrated with Turkey. The city has never been very close to Turkey even before the Soviet times. The "psychological distance" used to be very important. Today the Turkish consulate is issuing an average of 200 visas per day –

⁹⁹ The Komet ferry is operating between Hopa / Batumi, and is aiming at decreasing the traffic at the Sarpi border crossing and support border trade. A special regime allows the passengers to stay in Turkey 3 days without a visa.

with a minimum of 70 visas. There are at least 10 Turkish companies in Batumi. Turkey has become the only vista of Adjara. The region is leaning on Turkey. Turkish Eastern Black Sea region can wholly realize its development potentials if it is in integration with Batumi.

**Turkey : « Russians » from Trebizond
Le Figaro, Claude Lorieux, December, 31st, 1994**

Since the fall of the Soviet Empire, the old Byzantin capital has become one of the major commercial gates of the Caucasus. Trébizonde, at the gates of the former Soviet Empire, has become, since the fall of the iron curtain, dependent on Sarp, the Soviet-Turkish border post, become currently the Turkish-Georgian border post. Commercial flows, which have been paralyzed, restarted. At the beginning, Russians (naming for all residents of the former USSR) coming to Trebizond, were penniless. They were selling off their family belongings. It was the era of Russian bazar. Russians were selling without buying anything. Today, the trade flow has been reversed.

Two daily ferry connections with Sochi and ten charter flights are linking Trebizond and the former USSR. The small airport with its runway along the Black Sea coast, has got since the beginning of the year custom services.

Trebizond, today, has 39 bank agencies and 22 exchange offices. Signs of the stores are often being translated into Russian. The «Vali» (governor) shows a bilingual textbook for Russian businessmen. According to his assessment, about a million visitors from the former USSR come to the city. 57 companies are based in the new free zone area of the port. The turnover of the port has increased by four times in a year. The population, traditionally very conservative, has been evolving with contacts with visitors from the Caucasus.

Table 1. Crossings at Sarpi border gate, 1988-93

Year	Entrance of foreigners	Exit of foreigners	Exit of Turkish nationals	Entrance of Turkish nationals
1988	230	181	232	74
1989	8,296	7,176	3,431	2,804
1990	135,649	135,552	7,717	7,439
1991	512,518	475,095	22,671	19,937
1992	781,621	545,486	37,998	38,689
1993	521,358	387,636	49,737	46,997

Source: Sarpi border post

Table 2. Numbers of CIS citizens entering Trabzon, 1990-95

Year	CIS nationals
1990	144,000
1991	438,525
1992	693,657
1993	491,536
1994	584,626
1995	243,689

Source: Trabzon Tourism Office

Table 3. Individuals and trucks crossing the Sarpi-Batumi border crossing per year, 1996-2000

Year	Individuals		Trucks	
	Exit	Entry	Exit	Entry
1996	198 541	161 958	21,255	26,425
1997	166 501	166 647	21,138	26,893
1998	210 714	230 097	30,105	33,367
1999	238 673	238 475	20,486	19,779
2000	223 291	222 037	12,396	12,346

Source: State Customs Review of the Autonomous Republic of Adjara

Turkish/Georgian custom gates: the importance of Sarp/Sarpi (in USD million)

	2001		2002		2003		2004	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
<i>Sarp/Sarpi</i>	11.210	1.085	9.038	1.592	10.933	1.540	12.914	2.660
<i>Posof/Vale</i>	1.014	182	1.298	90	980	85	325	15

Turkish-registered trucks entering Georgia, 1998-2002

Gates	1998	1999	2000	2001	2002
Sarp/Sarpi	12,908	8,377	5,622	10,216	7,265
Türkgözü- Posof/Vale	1,430	1,315	815	717	904
Poti	-	-	573	-	818
Total	14,338	9,692	7,010	10,933	8,987

Road transportation costs between Istanbul and Tbilisi in USD

	Amount	Paid cost
<i>Transportation costs</i>	2.350	Transportation company
<i>Insurance and other costs</i>	150	Georgian government
Total	2.500	

The Georgian government charges USD 250 trucks in transit.

Source: Association of International Transporters, Turkey

Increase cross-border trade by developing maritime connection

- establishment of a ferry connection between Hopa and Batumi ports. The Georgian citizens can stay 3 days in Turkey without visa. The procedure applies only to Georgian citizens. The Turkish side is waiting for Georgia to adjust its legislation.
- 2nd step: 3 day visa free regime and ferry connection between Trabzon and Batumi
- Ferryboat connection between Batumi and Izmir

Developing strategies integrating Hopa, Artvin and Batumi

A developmental strategy integrating Batumi, Hopa and Artvin (Turkish Eastern Black Sea region) is under consideration. Turkish government is showing eagerness to support cross-border events between Artvin and Batumi. The establishment of a border trade center in Hopa will boost by reorganizing its border trade¹⁰⁰

Cross-border cooperation areas

- Joint management of the Batumi airport, which is 11 km from Sarp, based on the Geneva model. Connections between Istanbul, Batumi and Artvin. And direct access to Turkey.
- The road of the Borçka Camili region, near Artvin is closed in winter: possibility to access Turkey via the Georgian military zone.
- The Kabuleti tunnel : the project started in 1999, but stopped in 2001 because of problems with Abashidze.
- Industrial park concept applied to Adjara : Turkey has an important experience in the area of business clusters, incubators. A structure aiming at providing some facilities and improve infrastructures of businesses¹⁰¹.
- Between 1990-96, Turkey sent 1.4 billion kWh of electricity to Georgia through the Hopa-Batumi energy grid based on the 1990-93 agreement. In this framework, Georgia has to return to Turkey 1.67 billion kWh of electricity. According to the agreement for the supply of electricity signed in 1998, the Georgian electricity company SAKENERGO and a private energy company have started providing Turkey with power. 10% of these supplies were affected to the reimbursement of the debt of Georgia. These supplies stopped because of the dispute which occurred between SAKENERGO and the private company in January, 1999.

¹⁰⁰ Border trade centers.

¹⁰¹ "Greenoak holding has been working for it very actively, we thought it may work for Adjara". We reached an official agreement, even there was no any financial problem. The EBRD could have supported financially the project. But Abashidze was not the official counterpart for the EBRD, we had to get Shevardnadze's approval. He opposed just because of the "conflict" with Adjara. We failed to convince him of the importance of the project."

The supplies reached 1.23 billion kWh. According to a second agreement signed in April, 1999 between the Turkish electricity distribution company TEAS and SAKENERGO, 239.1 million kWh of electricity were provided to Turkey. In May, 2000, the Georgian Elektrogadatsema company supplied Turkey and the Georgian debt was reduced to 1.62 billion kWh. In March, 2001 TEAS and RAO UES of Russia signed an agreement for an electricity transfer of 70 million kWh through the Hopa-Batumi grid. Recently, according an agreement of barter trade, signed with the new Georgian authorities, Turkey accepted to provide Adjara with 60-70 megawatt of power in winter and to be reimbursement in summer by supplies from Adjara in summer.

Batumiteks, textile factory

Turkish investments in Adjara remain low. Small scale investors used to have an emotional link to the region, and were not totally driven by rationality. The textile company, Batumiteks is currently the major Turkish investment in Adjara. Earlier the Aksoy group was involved in the construction of the Riviera hotel. A commercial dispute, occurred in Abashidze period, stopped the project. The group was accused of importing cheap inputs from Turkey.

The factory was established by Greenoak Holding on a order given by Abashidze¹⁰². Taken into account that during the Soviet period, 3000 persons were employed in the textile sector, the group decided to invest USD 5 million in a textile factory *‘knowing that the group will lose money. It was considered as a social project’*¹⁰³.

The company starts looking towards Turkey in its search for customers. At that time, the company was specialized in cheap, low quality products.

Batumiteks is a joint-venture with two shareholders. Greenoak has 49% of the shares, Low Profile company, UK based company owned by a Turkish Cypriot UK citizen, 51% of the shares. All benefits and losses are for Low Profile. The participation of Greenoak was perceived as an important factor for relations with the Georgian authorities.

The firm is employing 1100 workers. The company isn't profitable yet, the monthly loss is estimated at USD 100 000. The director general believes that the company will become profitable in a near future. Batumiteks is manufacturing for Mark's and Spencer. The products

¹⁰² *That's how it used to work under Abashidze, we had to comply with the President's demand when he said do it! The textile factory was established because Abashidze asked us to create jobs*" says a representative of Greenoak Holding in Batumi.

¹⁰³ Interview with Ali Kemal Yardimli, director general of Batumiteks.

manufactured are “made in Georgia”. The production is sent to Bursa, in the Marmara region. The company has two trucks. The distribution and marketing is done from Turkey because the painting unit is located in Bursa.

Low Profile is based in London and has two production units in Bulgaria. It is dealing with commands but has developed its own collection. The company has acquired 15 stores. The London staff is of 1500 persons. The director general of Batumiteks believes that Turkish capital will start flowing into Georgian textile. Batumi will be a privileged place for outsourcing thanks to its proximity to Turkey. A comparison in labor costs is telling. Monthly salaries in Turkey are USD 300, in Georgia USD 100.

PART III

Cross-Border Interactions on NATO’s South Eastern Border

2/ Bridging Samtskhe-Javakheti with Turkey

General overview, locating Samtskhe-Javakheti

The region of Javakheti is located in the southern part of Georgia, nested against the borders of Turkey and Armenia. It covers roughly 2589 square kilometers and, according to the 1989 census results, is home to approximately 107, 000 people. Geographical conditions distinguish Javakheti and Meskheta from the rest of the country. Because of the harsh climate, the former is often called *Georgia's Siberia* : in winter, night-time temperatures are known to fall below minus 30 degrees, and snow may not melt for six months. The city of Akhalkalaki is situated at the altitude of 1,750 above sea level, while several villages in the Ninotsminda region are located above the altitude of 1,950 metres. In the 19th century Javakheti was a place of exile.

Samtskhe-Javakheti an advanced post in Soviet times, used to be a closed area. Travel restrictions, similar to those in Adjara, were applied. At the of the 50's, the frontier zone along the Turkish-Soviet border had been extended to 78 kilometres into the country. Only those with the *propiska* - only issued to those invited by the residents of the zone - were allowed to travel to Samtskhe-Javakheti. Local population needed it as well to be allowed to come back home after their trip.

The 62nd Divisional Russian base, part of the Transcaucasian Military District of the Soviet Army has been based in Akhalkalaki. The Soviet government was taking care of those at the edge of the Union facing the enemy.

Administratively, Javakheti is divided into two districts - Akhalkalaki and Ninotsminda. On the whole, the province with 2% of the country's population, occupies 3.7% of the country's entire territory. The population of Javakheti is predominantly Armenian in ethnic origin. According to the 1989 USSR census, in Akhalkalaki 91.3% of the population were ethnic Armenian at that time, 4.4% Georgian, 2.5% Russian and 1.8% belonged to other ethnic groups. In Ninotsminda, the corresponding proportions were 89.6% Armenian, 1.2% Georgian, 8.4% Russian, and 0.8% for other groups. However, since that census was conducted the proportion of ethnic Armenians seems to have increased; according to Georgian government statistics on electoral registration, 95.3% of the population of Ninotsminda *rayon* and 93.6% of the population of Akhalkalaki *rayon* are ethnic Armenians. Meskheti is divided into four districts: Akhaltsikhe, Adigeni, Aspindza and Borjomi. The province of Meskheti occupies 5.5% of Georgia's entire territory and accounts for 2.4% of its population¹⁰⁴.

Akhalkalaki also has its own directly elected mayor, as do all towns in Georgia with a voting population of more than 5,000. Real power, however, rests with the executive branch of local government or *gamgeoba* at the *rayon* (district) level. The government of Shevardnadze in 1994 created a new territorial division: the *mkhare*, which more or less correspond to the historical regions of Georgia, administered by an authorised representative or “governor”, appointed by the President of Georgia. Originally the governor’s post was entirely informal and not defined by law, the provinces acquired legal status when a new law on administrative territorial arrangement was passed in February 1997. Javakheti was incorporated into the province of Samtskhe-Javakheti¹⁰⁵, and is administered from Akhaltsike by a governor.

The second Georgian-Turkish border post located at Posof-Vale, at 80 km from the Turkish city of Ardahan and 30 km from Akhaltsike the capital of the Samtskhe-Javakheti region, had a limited economic impact: the Ilgar pass on the Turkish side and the poor condition of the road between Vale and Akhaltsike on the Georgian side acted as a deterrent. This region is crossed by the BTC pipeline. The linkage between the Turkish and Georgian

¹⁰⁴ Voitsekh Guretski, “The Question of Javakheti”, *Caucasian Regional Studies*, volume 3, issue 1, 1998

¹⁰⁵ which consists of the *rayons* of Akhalkalaki, Ninotsminda, Aspindza, Akhaltsikhe, Adigeni and Borjomi

parts was done at Türközü level, on Posof-Vale. The pumping station is located on the road from Ardahan to Posof.

Today, the area, suffering from its remoteness, condemned by its very poor infrastructure, is one of the poorest regions in Georgia, where the predominantly ethnic-Armenian population is virtually cut-off from the rest of Georgia, physically and economically. 94% of the population of Akhalkalaki and Ninotsminda are Armenians. Akhaltsike has become a half Georgian half Armenian city; the resettlement of the refugees from Abkhazia and migrants from Adjara produced noticeably an impact. The Shevardnadze government took a dislike for Samtskhe-Javakheti. The grave lack of economic opportunities coupled with a widespread perception of neglect and ethnic discrimination by Tbilisi has pushed the Armenian population of the region to stay apart from Georgia. The region has been all the more neglected because it was considered as conflict sensitive. Among the most common descriptions of Javakheti found in both journalistic and scholarly literature is that of *a potential zone of conflict, area waiting to explode*¹⁰⁶.

The new Georgian government led by Mr Zhvania decided to handle the problems of the region instead of perceiving it as a hidden mine; and launched the so called integration strategy¹⁰⁷. Currently, with the perspective that Akhalkalaki Military Base will be withdrawn from the region the Georgian Government has placed Samtskhe-Javakheti high on its agenda. The Government is planning a number of initiatives to further integrate this region into Georgia, including plans to start reconstruction of key road-links in the coming months, which will enhance the physical and economic links between Samtskhe-Javakheti and the rest of the country. The better understanding of the potential tensions doesn't call for an in-depth analysis: it seems normal that some in the large Armenian population, severely suffering from poor living condition, trapped in a closed and landlocked area, have been looking for a ways out orientating themselves towards their neighbor Armenia.

¹⁰⁶ The Caucasian Institute for Peace, Democracy and Development, Policy Brief: Javakheti in Georgia. Problems, Challenges and Necessary Responses (July 2000)

¹⁰⁷ The new leadership realized, as emphasized by one my interviewees: "Samtskhe-Javakheti, which was a very small part of the USSR, is indeed a big part of Georgia!"

A. Integrating Samtskhe-Javakheti : Challenges Ahead

The integration policy of Samtskhe-Javakheti has to address a wide range of issues. Many challenges stand on the road to success. The region is physically and psychologically cut off from the rest of Georgia.

The collapse of the Soviet system didn't lead to a political and economic opening of the area because of its very poor infrastructure. The problem is felt even more acutely in Javakheti. Akhalkalaki and Ninotsminda are literally disconnected from the rest of Georgia. The only way out is going through Akhaltsikhe. The most advanced link is the road which connects Akhalkalaki to Akhaltsikhe and which also forms the main transport route to Tbilisi. However, this road, while better than some others, remains in a poor physical state, ensuring that a 94-kilometre car journey from Akhalkalaki to Akhaltsikhe takes approximately two hours and journey times can be extended by a further three-and-a-half hours if the end destination is Tbilisi.

The most direct route to Tbilisi, however, is the road from Ninotsminda via Tsalka, but the road is in even worse physical condition, ensuring that it is only possible to make this journey by four wheel drive during the summer period. Finally, the road south from Ninotsminda into Armenia is also in a state of poor disrepair and due to its high altitude is often blocked by snow during the winter. As for roads connecting the villages in the region, these are little more than dirt tracks and are very often blocked by snow. There is one train from Tbilisi to Akhalkalaki via Tsalka every second day, but the journey takes around ten hours and its schedule is often subject to interruptions, particularly in the winter

Electricity supplies have been improved since the agreement between the Georgian and Armenian governments in November 2001 whereby Armenia agreed to provide electricity both to Tbilisi and directly to Javakheti. As a result, most residents of the region receive between 12 and 14 hours of electricity per day. Electricity supplies are not secured on the long term. The present relatively good situation is based on short time contracts with Armenia, which might not continue and doesn't prevent frequent power cuts. A project for developing a big hydro energetic station with a capacity of 5 MWA already exists. Furthermore there is at the present moment a lot of smaller private hydro electrical plants producing electricity. These are very important as local supplies, but are not at the present integrated in the central electrical grid.

Javakheti is famous in Georgia for its 8-9 month long cold winters. The temperature usually goes below -25 C. Nowadays, heating is a major problem. During Soviet times, the

heating system was based on fuel oil and coal, which became unaffordable for a large part of the population. 1 ton of coal costs USD 280, and 5 tones are needed at winter. 2 m³ of wood costs USD 120. The 5/6 m³ of wood for a whole winter period costs USD 700-800. Big amounts of firewood, mainly imported from Bakuriani, is being used. In this regard, there is a big wish in the region for gasification. This can be done by prolonging existing gas lines into Ninotsminda and Akhalkalaki rayons.

The language issue is another major challenge ahead. More than 95% of the population cannot speak Georgian, including many local officials and civil servants, which poses a significant barrier to greater integration with the rest of the country and limits participation in development activities. Most villages have no telephone service and there is no local reception of Georgian TV, with many residents tuning in to Russian and Armenian programs. Newspapers and magazines, which arrive sporadically, are mainly in Russian and Armenian. Many children in the region start in school without any knowledge of Georgian, most of them attend Russian or Armenian language schools. The issue of the teaching of the Georgian language has to be addressed at different levels. The improvement of the teaching of the Georgian language in Armenian and Russian language schools is an all the more important task because universities provide a training in Georgian. Furthermore, special effort should be made to teach Georgian Language to adult people who do not have Georgian as main language. A start of this has already been done with the programs supported by the OSCE.

**“Conflict Prevention and Integration Programme for Samtskhe-Javakheti”, OSCE
April 2003**

The OSCE’s Conflict Prevention and Integration Programme is a new project, which is ambitious in its scope and incorporates several components. Although the programme began formally in May 2003, one component – Georgian language courses for (ethnic Armenian) civil servants – began in May 2002 and teaching began in October of the same year. In the first year of the project 154 Armenian speaking civil servants from Akhaltsikhe, Akhalkalaki and Ninotsminda rayons received training in the Georgian language. Within the framework of the project, Georgian lessons are already being given to first-year students at the Akhalkalaki branch of Tbilisi State University. Another component of the Conflict Prevention and Integration Programme is the "News Re-Broadcasting in the Minority Language Project, Georgia", which involves the simultaneous translation of Georgian news broadcasts and which was outlined above. Finally, the establishment of the Centre for Legal Consultation in Akhalkalaki implemented by the Union of Democrat Meskhs together with the director of the Centre for the Support of Reforms and Democratic Development is also part of this Programme.

The population of Javakheti predominantly live cultivating private plots and shuttle trade with Turkey, some are engaged in supplying petrol to Armenia, others in the extraction of stone (which mostly ends in Turkey; apart from uncontaminated environment, the chief resources of the province are: marble, bazalt and construction stone). Few of the residents found jobs in small private enterprises: bakeries, filling stations, shops. Industry in the region has virtually ceased to function. During the Soviet period, Javakheti was a major producer of basalt and pumice stone, which were exported to other parts of the Soviet Union, mainly Russia. There were also local plants that processed agricultural products. Finally, in Ninotsminda there was a large factory that produced knitted goods. Almost all of these industries are now closed as a result of the economic crisis that gripped the region following the collapse of the USSR. 95% of the population in Akhalkalaki is jobless. The Akhalkalaki military base is the major employer in the region.

The Akhalkalaki military base

The major employer in the region is the Russian military base, where about 70% of the employees are local Armenians. In the first place, the base provides employment to many inhabitants of Akhalkalaki; estimates vary widely as to the number of jobs the base provides, but the minimum estimate is that around 1,000 local people are employed as military personnel, plus an indefinite number of non-military service personnel. Other estimates put the total number of people employed there as high as 3,000. Most of those employed there live either in Akhalkalaki, close to the base, or in the neighbouring villages of Diliski or Vachiani. When one considers that the population of Akahalkalaki is around 10,000 and that the population of the two neighbouring villages is no more than two-and-a-half thousand, and if we assume that the average extended family in the region consists of seven or eight members, it would seem reasonable to assume that at least half of families in the city and these two villages are supported by someone who works at the base. Moreover, since rates of pay are relatively high (approximately USD 100 per month for military personnel), employees at the base also provide a market for rural inhabitants to sell their produce: a crucial part of the local economy comes from the Russian military base located in Akhalkalaki. Finally, as Russian military vehicles are not stopped at customs, the base serves as a black market for a variety of goods (particularly cigarettes) that are imported from Russia. The revenue that the base brings in to the local economy is believed to amount to nearly USD 80,000 per month. In

a region in which income-generation is virtually nonexistent, its contribution to the local economy is hard to underestimate¹⁰⁸.

However, despite their generally favorable attitude to the Russian base, the local population does not unconditionally support the Russian presence. Local military personnel who work at the base are required to take Russian citizenship, and as Russian citizens they are always liable to be moved to another base within the Russian Federation. Recently this practice of transferring local staff out of Akhalkalaki appears to have become more frequent, and this has led to a certain degree of resentment¹⁰⁹. Many of ethnic Armenians are said to have been transferred out of Georgia and sent to serve in Chechnya. They were forced to live in sub-standard accommodation and their children were even not admitted to Russian schools.

The support given by the local population to the Russian base in Akhalkalaki has caused concern for the Georgian government. The continued presence of Russian soldiers in Georgia, more than a decade after the country achieved independence and as it aspires to join western institutions, is intensely resented by most Georgians. However, local attitudes towards the two bases - that of the 12th Division on the Black Sea coast of Ajaria, and the 62nd military base in the Armenian-majority town of Akhalkalaki in the mountains of southern Georgia, are very different. In Ajaria, the majority of locals want to see the base removed, while that in Akhalkalaki remains a major source of jobs for the local community in a region of high unemployment.

Tension in the impoverished area bordering Armenia and Turkey mounted as Tbilisi stepped up its pressure on Russia to close two of its remaining military bases in Georgia. Thousands of people took part the rallies organized by United Javakh on March 13 and March 31 to protest the withdrawal of Russian troops and demand greater attention from the central government to the region's socioeconomic woes. Russian state television covered the protest in detail. However, the issue of the Russian military base was conspicuously absent from the list of demands voiced by protesters at their next rally on March 31.

- | |
|--|
| <ul style="list-style-type: none">▪ Russian military base to remain in Akhalkalaki;▪ Georgian Parliament to "recognize the genocide of Armenians" by the Ottoman Empire during the First World War; |
|--|

¹⁰⁸ Oksana Antonenko, Assessment of the Political Implications of Akhalkalaki Base Closure for the Stability in Southern Georgia: EU Response Capacities, CPN Briefing Study, September 2001

¹⁰⁹ Jonathan Wheatley, Obstacles Impeding the Regional Integration of the Javakheti Region of Georgia, ECMI Working Paper # 22, September 2004, EUROPEAN CENTRE FOR MINORITY ISSUES (ECMI)

- Armenian language to be conferred official status, on a par with the Georgian language, in the predominantly Armenian-populated Akhalkalaki and Ninotsminda districts;
- Armenian history classes to be included in the curriculum of Armenian-language schools, alongside the history of Georgia;
- School excursions to Armenia to be sponsored by the authorities;
- Javakh diocese to be created by the Armenian Church;
- Law on the protection of national minority rights to be adopted by the Georgian parliament;
- Direct elections to be held for local government;
- Passport services and tax offices to be opened in Akhalkalaki;
- Customs checkpoints on the border with Armenia to be set up near Akhalkalaki;
- Reconstruction of the road along the Akhaltsikhe-Akhalkalaki-Ninotsminda-Armenian border to be made a priority by the Georgian government;

Georgian officials from Saakashvili on down have repeatedly assured local Armenian employees of the Russian base, as well as locally recruited military personnel at the Akhalkalaki base, that the Georgian state would re-employ them, once the Russian garrison withdraws. To point at a group of people manipulated by Russians to explain the rallies in favor of the Russian military base wouldn't be satisfactory. The military base gives a sense of closer proximity with Russia to the population of Javakheti totally left to itself. The search for a new economic base to replace the Russian base is a pressing issue. Cut off from the rest of the country for a large part of the year because of poor roads and extreme winters, Akhalkalaki's largest economic activity is the Russian military base, which relies on local farms for foodstuffs and many local workers for its general operation. President Saakashvili some proposals to support the region economically in the absence of the Russian base. In spring he stated Georgian forces based in Kakheti would be redeployed to the region and thus provide the base's present workers with continued employment. More recently in early July he stated that the Georgian armed forces would use the region as its proverbial breadbasket, establishing relations to regularly purchase portions of the region's large harvest¹¹⁰. The idea of replacing the Russian base will be replaced by a Georgian or a NATO base has been floated. It seems to be abandoned in favor of the establishment of the free economic zone.

Presidents Mikheil Saakashvili and Robert Kocharian met informally on April 1st in the Georgian mountain resort of Gudauri, without media coverage. Their agenda included the situation in Akhalkalaki, where two recent rallies by local Armenian residents aired political

¹¹⁰ M. Alkhazashvili, "Economic proposals for Javakheti, President of Georgia suggests the region can become Georgian army's bread basket after Russians depart", The Messenger, July, 13th, 2005

and economic demands, notably for the retention of Russia's military base. Following the two presidents' meeting, Kocharian was quoted as saying, "*The issue of withdrawal of Russian bases is Georgia's internal affair, for Georgia to resolve. Armenia will not voice an official position.*" Georgia's National Security Council Secretary Gela Bezhuashvili confirmed, "*Armenia's president is not going to interfere*"¹¹¹. On July, 24th, 2005, the Armenian and Georgian Prime Ministers met to discuss issues of economic cooperation, with a special emphasize on issues of joint development of border regions. The Armenian Prime Minister, Andranik Markaryan crossed the Georgian-Armenian border by car and was met by his Georgian counterpart, Zurab Noghaideli, and the governor of Samtskhe-Javakheti, Goga Khachidze. The two men spent several hours visiting the regional towns of Ninotsminda and Akhalkalaki as well as several villages. In the aftermaths of this visit, Armenian government announced to allocate USD 350.000 to implement programs in Samtskhe-Javakheti.

B. Regional links : importance of the Russian and Armenian connections

The Russian influence is essentially economic. The population is living on money sent from Russia. Workers from Akhalkalaki based in Russia are strengthening the traditional links. 50-55% of the population migrated to Russia. 1-2 persons from each family¹¹² have left their native city. A large proportion of the male working population from Javakhetian villages migrate to Russia every year, mainly to work in the construction industry. However, although a significant minority emigrate permanently, most return to Javakheti during the winter period to tend their crops. Since travel to Russia now requires a visa for Georgian citizens, a large number of offices have opened in Akhalkalaki and Ninotsminda selling Russian visas. According to data of the director of the bank of Akhalkalaki, USD 1 million is being sent monthly from Russia. It is argued that ethnic Armenians, especially those whose relatives are working at the base, are granted visa facilities to Russia. Nevertheless, one must bear in mind that a part of these migrants are illegal workers.

The daily van and bus connections to Russian cities from Akhalkalaki sheds light to the intensity of the relations. It is possible to travel directly to Amavir, Rostov and Moscow. These bus cross into Russia at the legal border crossing between Georgia and Russia at Kazbegi.

¹¹¹ Vladimir Socor, "Risk in Georgia's Javakheti Province can be defused", Eurasia Daily Monitor, Volume 2, issue 65, April, 4th, 2005

¹¹² In many families, active men, father and brothers are working in Russia.

Russia is also an important trade partner. It is the major source of supplies for foodstuff. Along with Georgian Lari, Russian rouble is also in circulation in the province. Roubles are supplied to the market especially by the military from the Russian base that are paid in roubles. In most of private shops and restaurants Lari is accepted with reluctance. Some traders used to get their supply on the Egneti market in South Ossetia. Difficult to check if the road through South Ossetia is still the major gateway to Russia.

Connections with Armenia

Javakheti has traditionally had very close relationships with Armenia. Many families in Akhalkalaki and Ninosminda have relatives in Yerevan. The Armenian capital is located at 1,5 hour distance. There are daily bus and van connections both to Gyumri and Yerevan. Many students from Akhalkalaki are attending universities in Yerevan. These traditional links are apparently being tightening with the commercial boost of the Armenian capital. The main influence of Armenia on Javakheti is primarily of a cultural nature. Moreover, as has been noted above, the local population relies to a large extent on Armenia for their sources of information, as the language barrier prevents them from receiving up-to-date information from Tbilisi.

Nationalistic attitudes of the Gamsakhurdia government (1989-1992) were met with counter-claims of the Armenian nationalists in Javakheti. In 1988 the popular movement “Javakh” emerged as a co-ordination committee of local public organizations. Ostensibly, its aim was to promote Armenian culture, to protect national institutions and to promote the development of the region. Initially its members included Georgians, Russians and Greeks, but increasingly it came to constitute a kind of “popular front” for local Armenians and began advocating greater autonomy for Javakheti. By the early 1990s, the Javakh enjoyed widespread popularity, especially in Akhalkalaki *rayon*.

Following Shevardnadze’s return to Georgia in March 1992, Javakh’s power base gradually began to diminish. Despite Javakh’s opposition, in 1994 the Georgian government created a de facto Georgian province out of Samtskhe-Javakheti, and the President appointed his own “authorised representative” or governor to the province. Prospects for greater autonomy for Javakheti were further diminished by the negative attitude of Armenia’s then President, Levon Ter Petrosyan towards the idea. In late spring 1997, Presidents Shevardnadze and Ter Petrosyan met in Javakheti and the Armenian President made it clear

that attempts to destabilise the situation in Javakheti would not be supported by the Armenian government¹¹³.

Later a new political movement called *Virk*, whose goal was to become a political party to lobby for Javakheti's autonomy within Georgia was established. It failed to gain the support Javakh had in the early 90's. Dashnaktsutyun certainly has links to some political circles in Javakheti, although there is no evidence to suggest that the party is actively and openly promoting a separatist agenda. The Kocharian administration has also been careful to distance itself from periodical calls for Tbilisi to grant Javakheti autonomy. Such demands were most recently voiced in February 2004 by a top leader of the Armenian Revolutionary Federation, a pan-Armenian nationalist party represented in Kocharian's cabinet. The Armenian government was quick to state that the demands did not reflect its view.

C. The Turkish factor

Turkey is the faraway neighbor. Surprisingly, the Armenian population of Javakheti is today much less used than Armenians from Armenia to count Turkey as a neighbor and partner. With the development of their external connection Yerevan and Gyumri started operating with Turkey via Georgia. The Georgian Armenians, because of their general remoteness, didn't experience this trend. Very few have been to Turkey. Turkey has remained the invisible enemy at the doorstep that has to be feared. The sense of isolation and being left to themselves, didn't help the local population to overcome its deeply rooted mistrust towards Turks. The special status applied to border regions in the Soviet times led to the development of a siege mentality. The belief that Javakheti has to be protected is still widespread. Moreover, many in the 100,00-strong local Armenian population traditionally regard the Russian military as their protectors from a hypothetical Turkish invasion from just across the Georgia-Turkey border. A large poster hangs over the entrance to the Russian military base bearing a quotation from the 19th century Russian general Ivan Paskevich, proclaiming, "*Govern this land without fear, the Russian army will defend you!*"

Fears have even been exacerbated by the perception of a shift in the balance of power. The feeling that Turkey has been constantly developing while Javakheti has been facing difficult hardships strikes the local population: "*At Soviet times, Javakheti used to be more*

¹¹³ Jonathan Wheatley, Obstacles Impeding the Regional Integration of the Javakheti Region of Georgia, ECMI Working Paper # 22, September 2004, EUROPEAN CENTRE FOR MINORITY ISSUES (ECMI)

developed than Turkey: we had electricity when Turkish villages didn't have it. Nowadays the situation is the opposite", highlights one of the interviewees.

This psychological distance from Turkey is all the more paradoxical since Armenians from Akhalkalaki were used to intermingle with the Turkish population. The Armenian population of Javakheti is originally from Kars and Erzurum. They left eastern Anatolia well before 1915: they had to leave with the withdrawal of the Russian army in 1829 led by General Paskevich and were settled in on the Turkish-Russian border regions. Indeed, the evacuation by the Russians of the eastern vilayets led to a certain redistribution of population, for many thousands of Armenians who had shown open sympathy to the Russians followed the army when it withdrew and were settled in the newly incorporated regions of Yerevan, Akhalkalaki, and Akhaltzikhe.

Some Pontic Greeks were also settled by Russians on these borderlands. After 1829, 2,536 Armenian families resettled to the neighbouring Meskheta (centre-the city of Akhaltsikhe) from Erzurum. On the eve of the Bolshevik coup, Armenians amounted to as much as 82% of the entire population of the Akhaltsikhe district. A few Greek villages exist in Samtskhe-Javakheti. These Armenian and Greek communities were to be border guards on this portion of the Russian external border with the Ottoman Empire. The Armenian population of Javakheti was not directly affected by the 1915 events: difficult to unfold stories of personal trauma and never healed sufferings from family memories. Fears from Turks dates back to the still alive memories of old Turkish-Russian wars fought on the borderlands.

10% of the vocabulary of the Armenian spoken in Akhalkalaki is made up Turkish words. Javakhetians are proud to emphasize that an Armenian of Yerevan can't understand these words. Interesting to note that Armenian spoken by the Hemshin community¹¹⁴ of Turkey is the same language than Armenian of Javakheti. Furthermore, Turkish is still a living language in Samtskhe-Javakheti. Surprisingly, it is called "*Muslimanca*", which means in Turkish "*the Muslim language*".

There are at least four Turkish speaking villages, among which some Armenian catholic ones. These villages are called *Barva*, *Gardigam*, *Khulduma*, *Tshatshka*. Some villagers are acknowledging to have suffered hardships during the Nagorno-Karabagh conflict since they were perceived as pro-Turkish. Fluency in Turkish is also widespread among the Adjarians villages. These Georgian Muslims from Adjara (mainly *Khulo rayon*) were

¹¹⁴ An Armenian speaker Muslim community based near Hopa, Artvin in the Turkish Black Sea Region.

resettled in 1989-90 in Javakheti following a series of landslides in their former home. They indeed moved from one region bordering Turkey to another. Elders in Akhalkalaki and Akhaltsirke speak quite well Turkish with an eastern Anatolian accent. They used to speak Turkish with their Mesketian neighbors. In the night of November 14th -15th , 1944, more than 115 000 Mesketian Turks settled in Southern Georgia¹¹⁵, predominantly from Meskehti were deported by Stalin. All of them were forcibly transferred to the Central Asia, especially to Uzbekistan. Memories of the lost neighbors are still very fresh. The location of Mesketian villages are well known by the population. Terraces that the Mesketians used to cultivate are still noticeable on the road between Akhalkalaki and Akhaltsirke. They remember the old neighbors with great nostalgia. A former director of sovkoze told he received letters from Uzbekistan, and hoped that the Soviets would allow them to come back. Villages used to have good neighborhood relations, intercommunity marriages were well accepted. Memories unfold a certain guilty conscious mixed with a sense of fear; the guilty conscious of not having been able to secure the neighbors, the fear that their right on the land where they settled could be questioned. The wording of the Mesketians Turks is sometimes challenged by Georgians in Akhaltsirke: Mesketians were according to them Turkish speaking Muslim Georgians, as the Adjarians. As a matter of fact, deportations of population also leave a lasting impact on the remaining populations.

The Posof-Vale border crossing

The second Turkish-Georgian border post, opened in 1994 between Posof and Vale, at 80 km from the Turkish city of Ardahan and 30 km from Akhaltsike the capital of the Samtskhe-Javakheti region, had a limited economic impact: the Ilgar pass standing at 2540 meters on the Turkish side and the poor condition of the road between Vale and Akhaltsike on the Georgian side acted as a deterrent. This region is crossed by the BTC pipeline. The linkage between the Turkish and Georgian parts was done at Türközü level, on Posof-Vale. The pumping station is located on the road from Ardahan to Posof. The border post is described as a crossing for pedestrians. The border petrol oil allowed between Akhaltsike and Ardahan for two years increased temporarily traffic, and the economic revenues generated by border crossings. The population of the border Posof would have liked to share the faith of those in Iğdir, where border petrol trade had been permitted for ten years. The strategic importance of Nakhitchevan benefited seemingly to Iğdir. The Göktas company is connecting

¹¹⁵ The area is also called Mesketi-Javakheti

Tbilisi and Trabzon through Vale. A small scale trade in fruits and vegetables is being carried on.

D. Linking Kars and Akhalkalaki: the regional impact of the opening of a third Turkish-Georgian border post at Cildir-Aktas/ Karsatkhi

Kars-Akhalkalaki Initiative

1-3 June businessmen and political leaders from the city of Kars in Eastern Turkey and Akhaltsike, Akhalkalaki and Ninotsminda (Samtskhe-Javakheti, Georgia) met to discuss how to improve the economic relations between the border regions of Georgia and Turkey. During the two-day visit the delegation from Samtskhe-Javakheti met with the Mayor of Kars Mr. Naif Alibeyoglu, the President of the Chamber of Commerce and Industry of Kars, Mr. Ali Guvensoy and private Turkish businessmen. The program also included excursions to the industrial area of Kars and the ancient town of Ani.

The visit to Kars was organized by Burcu Gultekin, Europe Coordinator for the Turkish- Armenian Business Development Council (TABDC, Turkey-Armenia) and Mikael Hertoft, Program Manager in Javakheti for the European Centre for Minority Issues (Georgia), in cooperation with the mayor of Kars, Naif Alibeyoglu and the mayor of Akhalkalaki, Nair Iritsyan. The mayor of Kars kindly hosted the delegation.

Kars, historically known as *Serhat Kars*, lost its status of border city and became one of the easternmost provinces in Turkey in 1993 when direct land communications with Armenia were severed and Dogukapi/Akhourian gate, the official border post between Turkey and the Soviet Union was sealed. Akhalkalaki, the centre of Javakheti, an advanced post in Soviet times, used to be a closed area. Today, the area, suffering from its remoteness, condemned by its very poor infrastructure, is one of the poorest regions in Georgia, where the predominantly ethnic-Armenian population is virtually cut-off from the rest of Georgia, physically and economically.

Akhalkalaki is located at 35 km from Armenia and 30 km from Turkey; whereas Kars is at 70 km from both Armenia and Georgia. The opening of the Karsatkhi-Cildir/Aktas border crossing will place Akhalkalaki at one hour distance from Kars; therefore put the most remote regions of Turkey and Georgia in a central position. The issue has been on the agenda of the Turkish and Georgian governments for several years, and has been handled in the last Turkish-Georgian Joint Economic Commission. The Posof-Vale border post linking Ardahan

and Akhaltsike had a limited economic impact: the Ilgar pass on the Turkish side and the poor condition of the road between Vale and Akhaltsike on the Georgian side acted as a deterrent.

During the meetings, business communities and political leaders of Kars and Akhalkalaki investigated the new source of income and ways to increase the amount of workplaces based on cross-border trade, joint investment and marketing projects and the development of regional tourism. It is therefore of importance to improve the conditions for economic cooperation. A first step should be to open up a border station – the third between Georgia and Turkey – on the road between Kars and Akhalkalaki, between Karzakhi (Georgia) and Cildir/Aktas (Turkey). This will require a rehabilitation of the Akhalkalaki - Karzakhi road.

Kars is looking forward to becoming a gate to the Caucasus with its opening up on Georgia. Javakheti has started looking beyond the border towards Turkey to create a new economic base to support livelihoods. Samtskhe-Javakheti region and Eastern Anatolia can be as integrated as Adjara and the Turkish Black Sea region. Furthermore, the Karsakhi border crossing will, as Sarpi did, open a transit trade route to Azerbaijan and Armenia.

The members of the Samtskhe-Javakheti delegation and their Turkish counterparts expressed a strong support to the Georgian and Turkish governments in their efforts to open the border post and improve infrastructures. Local actors at both sides of the border are placing great amount of interest and hope in the Millennium Challenge Georgia project for the renovation of road connection between the Turkish border, Akhalkalaki and Tbilisi

The businessmen and political representatives from Kars and Samtskhe-Javakheti agreed to meet again in Akhalkalaki in the nearest future to discuss further cooperation. The mayor of Kars expressed a wish that the delegation from Turkey could travel to Georgia over the border crossing at Karzakhi. He expressed the wish that the border crossing be opened specially on the occasion of the follow-on visit.

Borderlands, where Turkish, Georgian and Armenian identities and culture intermingle can be placed at the heart of the Caucasian communication hub.

Important infrastructure projects on the agenda

Infrastructure development projects – Millennium Challenge Georgia

In January 2004, the US Congress established a new mechanism of assistance to development – the Millennium Challenge Account (MCA). The MCA is administered by the Millennium Challenge Corporation (MCC), a new government corporation. The total amount of the fund was USD 1 billion in 2004 and USD 2,5 billion in 2005. In May 2004, Board of Directors of the Millennium Challenge Corporation announced Georgia among 16 countries eligible to submit proposals for funding under the Millennium Challenge Account. Responding to this opportunity, government of Georgia developed its first Proposal, describing how it envisages poverty reduction through economic growth. Soon after Georgia became one of 4 countries, with which MCC has stated an intention to negotiate the “Compact international agreement”.

The Georgian government created a special governmental committee - the Millennium Challenge Georgia, involving representatives of the executive government, parliament, civil society and private sector. Georgia’s proposal was to reflect not only state priorities (based on strategic instruments), but also vision of ordinary citizens, NGOs, private and other sector representatives. To ensure such participation the above Committee organized broad consultation process. As a result of the joint efforts Georgia presented US government its Proposal on September 7th of 2004.

The United States, through the Millennium Challenge Corporation, has approved the five-year \$295.3 million Compact with Georgia on August, 16th, 2005. By focusing on rehabilitating regional infrastructure and promoting private sector development, the program will directly benefit approximately a half-million Georgians. Georgia has four priority sectors, which will be the focus of this assistance program:

- Rehabilitation of infrastructure and roads in Samtskhe-Javakheti region;
- Infrastructure development, involving rehabilitation of roads and bridges, water/wastewater and sanitation systems, irrigation and drainage systems;
- Agriculture and tourism sectors;
- Rehabilitation of the main gas pipeline (north-south), which serves as the backbone for Georgia’s gas system.

The largest part of the budget (USD 110 – USD 120 million) will allocated to the rehabilitation of roads in Samtskhe-Javakheti: the connection between Akhalkalaki – Tbilisi via Tsalka (about 130 km) and between Akhalkalaki – Karsakhi (to the Turkish border, the Karsakhi / Cildir Aktas border crossing to be opened soon).

Building of Railroad Akhalkalaki-Kars

This project, which has been agreed between the governments of Georgia, Turkey and Azerbaijan has big importance for the development of Georgian and Caucasian trade, and for Samtskhe-Javakheti as a transit region.

Repair of the road Ninotsminda-Armenian Border

This has international importance as transit route for Armenia, and will help boost the regional economy as a transit region.

PART III

Cross-Border Interactions on NATO's South Eastern Border

3. Cooperating across the Iron Curtain : Gyumri / Kars

The issue of the closed border, perceptions from below

The opening of the Turkish-Armenian border is a vital issue for Armenia. Difficulties of access to the rest of the world increase transportation costs, while the smallness of the Armenian market and the inability to think on a regional scale are disincentives to potential investors. For Turkey, however, opening the border and gaining access to Armenia's market are only of secondary consideration.

According to Turkish officials arguing for the normalization of the relations with Armenia leads to a trade-off between Armenia and Azerbaijan. A sentence of the former President of the Turkish Republic resumes the approach which continues to prevail in Ankara. Mr. Demirel was used to answer to those supporting the establishment trade links with Armenia "*Turkey cannot take the risk of displeasing her Azeri brothers in order to allow a few to make some profit.*" However, the Istanbul Chamber of Commerce has been interested in Armenia for several years. The Association of Industrialists and Businessmen in Turkey has openly advocated for the development of relations with Armenia and the Unions of Exporters, official groups linked to the Undersecretariat of Foreign Trade, have criticised national policies toward Armenia. The border closure has hindered the exports of small and medium-sized enterprises in regions remote from the economic centre, and punished Armenian consumers by increasing the price of imports.

Those who do not view the opening the border as a priority are thinking within a national framework: for them, the region's underdevelopment is a result of the lack of interest from the economic and political decision-makers. They estimate that 'focusing on the border question' is only a diversion and that priority should be given to the elaboration of a development programme for the peripheries. Furthermore, they argue, the opening of the border would only increase the region's isolation from the centre.

Others put forth arguments related to security. Since these regions are partly populated by Azeris or receive thousands of Azeri visitors, there is concern about possible confrontation between Azeris and Armenians. Opponents to opening the border, however, represent only a tiny minority.

Entrepreneurs and traders in the border cities expect an immediate gain from opening the border. The main motivation is to sell their products in Yerevan. According to interviewees, the need to open and even abolish the border altogether is justified by economic pragmatism. In an age of globalisation, they argue, borders create economic burdens and constitute an aberration in political terms. Borders have never protected countries against threat, they argue, and emphasis should be given to 'other means of watching what is going on the other side of the border'. As for security issues, they say that 'Turkey can easily invade Armenia if necessary'. Even if interviewees believe 'the conquest wars belong in the past', they cannot help but add that opening the border will modify the power balance in Turkey's favour. One official from the Igdir Chamber of Commerce proposed that the border be temporarily opened for a determined time with the objective of increasing Armenia's dependence on Turkey.

The wish to establish relations with 'those on the other side' is just as strongly expressed as the economic benefits that are likely to emerge. The desire to communicate with neighbours is all the more important since many families in the region are originally from villages in Armenia.

A. The issue of the opening of the Turkish-Armenian border for Kars

Kars is situated 70km from the border gate at Dogu Kapi, the official border crossing between Turkey and the Soviet Union. The border town of Akyaka, which is also the last station on the Orient Express across Anatolia, borders on an Armenian village. Despite problems of compatibility between Turkish and Soviet railway networks, the opening of the border gate and the construction of the railway network permitted the breeders of Kars to export towards the Soviet Union for a longtime

Wheat and animal products were the principal exports. In 1937, an exploitation established on the border area was exporting animal products to the USSR. The development of Turkish-Soviet trade relations was sustained by bilateral economic agreements signed in the 1930's. In the 1960s, the Soviet Union developed into an important market for the exporters of Eastern Anatolia. The disease of aphtae fever which broke out in 1974 interrupted trade. The deterioration of the economic situation in the Soviet Union after the second half of 1980s didn't allow cross border trade relations to recover.

At the beginning of 1990s, a flow of exchanges across borders began between the province of Kars and the young Independent Republic of Armenia. This daily railway connection permitted the Armenian businessmen to arrive easily in Kars.

Turkey is linked to the Transcaucasian railway system built during the Russian empire and subsequently upgraded during the Soviet era. The construction of the railway system of eastern Anatolia, running from Sarimakis to Kars, dates back to the Russian period. The Soviet rail system consisted of 32 railways, with a total length of 145,000km, and they carried 55% of all passengers and 25 % of all commodities transported.

The Armenian railway system connects Turkey with the Russian/Soviet railway network, providing access to the Caucasus, the Russian Federation and Central Asia. Armenia is the hub of the regional railway network and several lines cross its territory, which is situated at the crossroads of east-west and north-south communications. Akyaka, the last station of the railway that links Istanbul with Kars, is also connected to the Armenian city of Gyumri, providing access to Transcaucasian railway system. There have always been compatibility issues between the Turkish and Soviet systems, but the railway connection between Kars and Gyumri was operational until 1993. Gyumri is linked to several other railways, including the Yerevan-Julfa-Baku line that runs through Nakhichevan along the Iranian border, and the Yerevan-Sevan-Dilian-Gazakh-Baku line. Conflict, political disputes and closed borders have condemned this huge railway network, which was once essential for communication across the Transcaucasus. The new TRACECA map, approved in December 2001 in Tbilisi, integrated the railway connection between the Turkish city of Kars and the Armenian city of Gyumri in the TRACECA transport corridor. The action plan for the 2002-2004 period takes into account rehabilitation of the container terminal at Gyumri railway station.

The closure of the border gate Dogu Kapi condemned Kars to isolation. Currently, there isn't any exporter in Kars and the customs department has been transferred to Erzurum. In the meantime, Ardahan and Igridir were taken off from the administrative territory of Kars and were granted the status of provinces: furthermore, the opening of Posof/Vale border crossing permitted Ardahan to open on Georgia, and Dilucu gate linked Igridir to the Azerbaijani enclave of Nakhitchevan.

The issue of the opening of the Turkish-Armenian border is a high ranking priority on the agenda of political officials and the business community of Kars. Armenia is considered as the natural market for Kars.

The actions taken by the municipality of Kars

The municipality of Kars has been striving hard for the development of relations with Armenia by multiplying contacts across the border. Actions undertaken in the early 2000 caused some serious troubles for the local community. The Armenian participants attending the Kars City Congress in June 2000, were expelled by the decision of the Interior Minister, pretending that the Armenians did not have official invitations. The city of Kars, attracted the suspicion of the central authorities after signing a twinning agreement with the city of Gyumri; and had to sign a similar agreement with the Azerbaijani city of Gence following this incident. The 2nd Congress, organized in September, 2004 gathered many participants from all over the Caucasus, including Armenia, and was attended by Turkish high ranking officials. The agenda was mainly focused on some soft issues, as culture. The unavoidable issue of the opening of the Turkish-Armenian border was handled incidentally. Nevertheless, the visit organized to the border crossing had been noticeable.

Lobbying for the opening of the Dogukapi/Akhourian border crossing is the most sensible behavior from a local perspective: the city, has been a gate to the Caucasus and the Soviet Union for decades thanks to its railway connection, cultural and historical proximity. Today Kars, is suffering from its remoteness. The closure of the border gate is all the more difficult to understand since Istanbul and the Black Sea Coast are fully authorized to maintain economic and human relations with Armenia. In this regard, local politicians of Kars will easily argue that the powerful lobby of the Black Sea is supporting the closure of the border gate Dogu Kapi, which benefits to the strengthening of the Black Sea-South Caucasus relations¹¹⁶.

Kars, perceived as *pro-Armenian*, has been often left alone on the political arena. The Azerbaijani consulate, inaugurated in 2004, made the local business community feel uncomfortable. The widespread belief is that “*the Azerbaijani consulate was open just to prevent the opening of the Turkish-Armenian border*”. The statue of the late President Haydar Aliiev, built by the Azerbaijani consulate, is standing on the main avenue of Kars, facing the major hotel of the city.

¹¹⁶ The construction of the Black Sea coastal superhighway shows the strength of the road transporters originally from the Turkish Black Sea region.

The actions undertaken by the businessmen for the opening of the border

The Association of the Industrialists and the Businessmen in Kars (KARSIAD), the Chamber of Commerce and Industry and the Union of the Tradesmen and the Artisans have been trying to convince national authorities of the benefits of the opening of the Turkish-Armenian border.

In 1996, local officials of Kars handed in a petition for the opening of the Dogu Kapi border gate with more than 100.000 signatures, to Prime Minister Necmettin Erbakan. KARSIAD organized a visit to Armenia in 1998 with the Turkish-Armenian Economic Relations Development Council. The members went to Yerevan by road and were in Armenia at the time of the change of the political direction. The delegation was received consecutively by both Mr. Petrossian and Mr. Kocharian.

The president of KARSIAD is one of the most important breeders of Kars. The firm, is mainly working for the local market, has developed business links with Erzurum and in Ankara, and is striving to compete with producers from the Marmara region. The firm used to export decades ago to Georgia, Azerbaijan, Nakhitchevan and Armenia till mid 1980s.

According to the assessment of the businessmen' association, profitability can only be reached if the transport costs do not exceed 20% of the product's value. However, the transport costs exceed 50% when delivery is made through Georgia. For the small producers, far markets are out of reach. The President of KARSIAD estimates that the turnover of its company could increase by three times in less than six months if the border opens. As a matter of fact, the closure of the border harms essentially regional SMEs.

The business community of Kars has decided to undertake a new initiative; a group of businessmen are working for the establishment of a Caucasian business association based in Kars. The association, to be called KAFSIAD in Turkish, standing for Caucasian Association of businessmen and Industrialists, will strengthen business links between Eastern Anatolia and South Caucasian countries.

Industrialization and networks of commercialization

Economic activities of Kars is mainly based on agriculture. The industrial zone has been developing over the last years. Governmental fiscal incentives have attracted some investments, especially realized by businessmen originally from Kars. Various activity sectors

are represented in the zone: dairy products, metallurgy, forestry and agricultural products , pneumatics, animal products and textile. A cement and sugar factories are also operating in the industrial zone.

The common problem faced by all investors is the access to markets. The development of commercial ties with the Caucasus region will open a window of opportunities for the industrialization process of Kars.

The case of Dogu Metal

The factory, Dogu Metal, specialized in metallurgy, is the most important employer of the industrial zone of Kars. The factory employs 100 workers. It offered training to the majority of the workers. Dogu Metal owns production units in Bursa. 80% of exports are sent for Russia and the Central Asia. The shipment is being done by maritime connection.

The decision to invest in Kars dates back to 1998. The aim was to export directly by railway network. As the border has been remaining, Dogu Metal had to face high transport costs. Consequently, exports transits through big firms, in particular the firm PilSa of Sabanci group. The firm adds a small value to the products of Dogu Metal before exportation. The possibility of opening soon the Turkish-Armenian border motivated the investment decision of Dogu Metal. The enterprise was planning to send its production from Kars to Russia and the Central Asia without an intermediary exporter firm located in the Marmara or the Aegean regions. However, currently products are being sent by trucks to Istanbul or Adana. Nevertheless, the company managed to increase its productivity: in 1998, the production was reaching 7 millions pieces per year; in 2001 it became 2 millions pieces per month.

With the opening of the border gate Dogu Kapi, the transport costs are expected to decrease by 5. Dogu Metal would like to import copper from Armenia and is looking for a supplier in Armenia.

Source: interview with the director of the enterprise, Kars, January 2001-2005

B. Perceptions from Gyumri

The nightmare of the last 20 years

Gyumri entered in a very gloomy period a year before Armenia's accession to independence. Natural disaster preceded the socio-economic choc of the collapse of the Soviet Union and human and economic sufferings of the war launched against Azerbaijan. Gyumri has been under a curse over the last twenty years. One of the most active and entrepreneurial NGO leaders in Gyumri, recalling this period says "*1988-1998 period was a nightmare, I don't remember my life. We lost all, didn't have the slightest hope*".

The devastating earthquake literally struck down Gyumri in 1988. The death toll reached 25 000 in a city of a population of 150 000. About 60-70% of the population who survived left Gyumri in the beginning of 90's. The earthquake spared just a few buildings. Impacts of the devastation are still easily noticeable.

A few years later in 1993, in the context of an escalation of the Nagorno-Karabagh conflict, the Turkish-Armenian border was sealed, the railway connection operating between Kars and Gyumri was cut off.

Gyumri, located at 20 km from the Turkish border shared a better destiny in comparison to the other Soviet border cities. Despite the usual travel restrictions for bordering areas, Gyumri used to be a gate to the outside world. The Kars-Gyumri railway, operational during the whole period of the Cold War, had been the only land transportation link for commodities and passengers between Turkey and the Soviet Union. The Soviet officials thought apparently that Armenian population of Gyumri, was unlikely to collaborate with the Turkish enemy just at the other side of the border. The Adjarian and Azeri populations in Batumi and Nakhitchevan were far more suspicious.

The Akhourian train station, at 15 km from Gyumri and at 3 km from the Turkish border, is the last train station on the Armenian side. The closest villages Akhurik and Garibdjanian used to be an forbidden area. Population from Gyumri recalls with nostalgia the period when trains were circulating, and livelihoods was based on trade. Only one track is operating in the Gyumri train station. The empty track towards Turkey left a bitter feeling. The local community remind of the aftermaths of the earthquake, when the railroad was used for the delivery of the humanitarian aid. In the early phase of the reconstruction many construction factories opened in Kars and Igdir.

Raising from the ashes

A relative economic recovery is noticeable. Economic activity has been speeded up for the last three years sustained by the on going reconstruction work. A revivalism of trade is an indicator of new cash flows. The population of Gyumri is currently 140 000.

The population has shown a resilience in deprivation and closed environment. A strong entrepreneurial energy is emerging. The Gyumri originated diaspora, formed in the 90's, didn't forget its native Gyumri, and international donors and American Armenian

diaspora, namely Kirk Krikorian¹¹⁷, are actively supporting the Gyumri in its economic revivalism.

Housing

60 000 persons were left homeless in the earthquake. Currently, 3000 persons are still waiting for a permanent housing. The problem is planned to be solved in three or four years time. The housing program is financed by a pool of donors, USAID and Kirk Krikorian's Lincy Foundation are the major donors. The beneficiary population is receiving certificates to purchase a flat. The total amount of the certificates equals USD 15 million. The new houses are being built by private companies.

Impact of the Gyumri diaspora

Those who had left Gyumri in the 90's and settled mainly in Russia, started taking care of their native city. Some of them began resettling in Gyumri for the whole year or a few months, others have started investing especially in trade and service. Five new hotels were built in the last five years, and the city has now nine banks. The development of shopping centers and hotels provide a good indicator of this business involvement. Modern constructions are transforming the external appearance of the post earthquake city. Private houses in basalt built by wealthy businessmen are perpetuating the traditional Gyumri style¹¹⁸ One of them has even decided to produce locally and established three years ago a furniture factory.

Only 46% of the population is employed. Nevertheless, supported by these trends, the SME sector is developing. The economic activity is mainly based on trade, however a few local production units exist. Let's quote the stone processing factory, the diary products processing and fish breeding unit.

Living in a closed environment

The closure of the Turkish-Armenian border deprived Gyumri of its privileged access to Turkey. The border city, which used to be a gate in the Soviet times, became a city on the edge of a newly independent Armenia, leading to a dead end. The Yerevan-Tbilisi railroad

¹¹⁷ "Two persons have done a lot over these last years for Armenia and for Gyumri: Kocharian and Kirk Krikorian".

¹¹⁸ Which also the traditional Kars style, an architectural legacy of Russia to both Gyumri and Kars.

connection is still operational, the two road connections are Yerevan-Gyumri-Bavra and Vanadzor-Gyumri.

The closed border had apparently some benefits: “*we learnt to live in a close environment, just by relying on ourselves*” comments a businessman from Gyumri. Isolation and the sense of being blockaded led to resilience and creative survivalism. Achievements despite hardships have provided the entrepreneurs with self confidence.

The opening of the Turkish-Armenian border is a long awaited event. Further development potentials of most of the businesses depend on the opening of the Kars-Gyumri railroad. Despite the lack of direct land communication, Turkey, along with Russia, has become the major business partner. Twenty businessmen¹¹⁹ have already business links with Turkey. Beko¹²⁰, Turkish brand of household electricals, has opened a store on the main avenue of Gyumri.

While the opening of the Turkish-Armenian border is believed to open new vistas for the local business community, the existence of the Russian base is perceived as a mayor problem for business development. The 102 base is located in Gyumri and has several compounds almost in the center of the city. It employs 12 000 persons, approximately 2000-3000 locals. Local entrepreneurs seem convinced that “*Russian troops, considered as a risk, give a sense of insecurity to the potential investors*”.

Voices from the business community of Gyumri

Interview 1

Mr Rubik Badalyan is the director of “R.Badalyan, LTD”, a textile retailer store, founded in 1997. His company is based in Gyumri because “*he loves his town and lives in it*”. The company imports clothes from Istanbul and sales on the local market in Gyumri. Mr Badalyan would like to develop business links with Georgia, Russia and the Arab Emirates. Currently, Turkey is the only regional country with which the company has business links. The most often used trade route are the Yerevan-Istanbul-Dubai connections. The opening of the Kars-Gyumri and the railroad through Abkhazia would be the most important infrastructural developments.

Interview 2

Mr Hamik Gevorkyan is the director of the “Khayts-Ishkhan” fish breeding company. The company, based on a two hectare field and use underground waters, was founded in 2001, and

¹¹⁹ The scale of the businesses are ranging from USD 500 000 to USD 1 million.

¹²⁰ The regional distribution is done from Tbilisi.

produces 30 tons of fish. The climate and quality of waters justifies its location near Gyumri. Production , consisting of fishes, caviar, filet, smoked fishes is sold on the local market, and exported to Russia, Ukraine and the Arab Emirates. The firm is collaborating with Russian partners for technology transfers. Russia, Turkey and Georgia are the potential export markets. The most often used trade route is the Armenia-Georgia-Poti route, the firm imports fish feed from other CIS countries.

Interviews with retailers and wholesalers of foodstuff and household goods provide insights on the commercial distribution channels and the external trade connections.

Interview 3

Mr Harutyunyan Feliqs, owner of “Nano LTD”, established in 1998, is a trader of foodstuff and household goods. He aimed at increasing the service supplies of the town of Gyumri. He imports goods from Georgia, Russia, Armenia and Turkey. Mr Feliqs believes that the development potential of his business depends directly on the opening of the Gyumri-Kars railroad. His preferential trade route are the Yerevan-Istanbul and Yerevan-Moscow connections. The opening of the Kars-Gyumri railway and of the railway crossing Abkhazia would be a major breakthrough.

Interview 4

Mr Khandilyan Arkadi is the director of the “Adana”¹²¹ shops network, specialized in foodstuff and household goods. His business is based in Gyumri because it is his native town. The company has business links with Turkey, the Arab Emirates, Georgia and Russia, and is planning to develop his network in this region. The most often used trade route are Yerevan-Istanbul and Yerevan-Dubai routes. He is looking forward for the opening of the Gyumri-Kars and Tbilisi-Sukhumi railroads, thinks that the construction of a direct route between Javakheti (Southern Georgia) and Turkey would be an economic impact.

Interview 5

Mr Manukyan Hovhannes is the owner of the “Hovman Prestij LTD” shops network, wholesaler of foodstuff and household goods. When asked why he is based in Gyumri, Mr Hovhannes answers “*We will build our town with our hands*”. His company is importing from Georgia and Turkey and selling on the local market. He is planning to expand his activities to Russia. The trade route the company uses is the Gyumri-(Georgia)-Istanbul route. He is looking forward for the opening of the Kars-Gyumri and Sukhumi-Tbilisi railroads.

Interview 6

Mr Samvel Varjapetyan is the owner of the “Partez” shops network of foodstuff and household goods. He is operating in Gyumri to improve the service supplies of the town. The company is importing from Georgia, Turkey and the Arab Emirates. The most often used trade route is the Gyumri-Yerevan-Tbilisi-Istanbul connection. He is expecting the opening of the Kars-Gyumri railroad.

Interviews realized in Gyumri – March 2005

¹²¹ Adana is the name of a city in the South Western part of Turkey.

PART III

Cross-Border Interactions on NATO's South Eastern Border

4. At the intersection of four countries: cross-border interactions between Igdir and Nakhitchevan

“It is said that in Culfa people from four Iran, Turkey, Azerbaijan and Armenia can talk to each other”

Igdir is at half an hour distance by car from Yerevan. The road that leads to the border with Nakhichevan at Dilucu runs along the Turkish-Armenian border. Igdir benefits from an exceptional geographical position. The city borders on 3 countries, Nakhitchevan, Iran and Armenia.

Nakhitchevan is bordered on its South on 200 km by Iran, Armenia surrounds with a slightly longer border, the Azerbaijani Autonomous Republic on its North, West and East. The Araxes river marks the border with Turkey and the Eastern border with Armenia. The Sadarax region of a population of 15 000 is bordering all the three countries, Iran, Turkey and Armenia. Only 22,5 meters are separating Armenian and Azerbaijani military lines. One has to drive towards the direction of the Mount Ararat, along the Armenian border, to reach Dilucu, the border crossing with Turkey.

Igdir is located at 85 km from the border post with Nakhitchevan and at 35 km from the border with Armenia. Only the border with Nakhitchevan is open. The opening of the border with Iran hasn't become yet fully operational while the opening of Alican Kapi, situated at a half an hour distance from Yerevan, depends naturally on the broader issue of the opening of the Turkish-Armenian border. The lights of Yerevan have fascinated the population of Igdir for decades as these remarks from the Turkish side of the border testify.

Yerevan perceived from Igdir

- ‘In Soviet times, the lights from the Armenian side were very good and the electrification of the countryside was far advanced. We profited from the Armenian lights to plough our lands!’
- ‘When we come from Ankara by car, after a turning, we see the lights of a city. Generally, people think that it is Igdir, but in fact it is Yerevan! And in the Soviet age, the illumination was better.’
- The closure of the border is essentially perceived as a restriction of freedom of movement. In an ‘age of globalisation and communication’, such a restriction is considered senseless

and 'inhuman'.

- 'It is totally absurd to restrict the freedom of movement of the people. If we want to, we should be able to spend some time in Armenia!'
- 'It is sad not to be allowed to get to the other side of the border and, especially for Armenians: to contemplate Mount Ararat without being able to come and visit it!'

The opening of the border post with Turkey provides an exit to the west which is vitally important for such an isolated territory. The 18-km border between Turkey and Azerbaijan had been closed since 1921 and the separation was so intense that the population of Nakhichevan was unaware that their neighbours across the frontier spoke nearly the same language: the population of Sadarak only noticed their neighbours spoke the same language in the 1970s when they first received broadcasts from Turkish television. The Dilucu border gate, commonly known as Hasret Kapisi, opened in May 1992 and a bridge built over the River Araxes link Turkey to Nakhichevan. The Dilucu border post has been of vital importance to the isolated Azerbaijani enclave, but it ran into a cul-de-sac.

A. Nakhichevan: the Gate of Orient

Nakhichevan is said to be the oldest city in the world. Noé would have chosen to settle in Nakhichevan when he came down from Mount Ararat where his Ark landed. In the 17th century, the traveler Evliya Celebi described the city as one of the wonders of the world.

With a surface area of 5,500km², Nakhichevan is situated in a mountainous region bordering Iran and is drained in the south by the River Araxe. After the opening in the 19th century of the border gate at Culfa, 40km to the south, Nakhichevan became an important communication hub and the Russian empire's chief access to Persia. Called the Gate of Orient, the enclave is at the crossroad of east-west and north-south railway connections. In Soviet times, 30 locomotives, each pulling 150 wagons, passed through Culfa every day.

Nakhichevan was given to Azerbaijan in 1920 by Soviet officials despite Armenian protests. The Treaty of Kars in 1921 defined the border between the USSR and Turkey, and granted Turkey the status of guarantor of Nakhichevan's territorial integrity. The Nagorno-Karabakh conflict cut Nakhichevan's communications with Azerbaijan. The Armenian offensive against Nakhichevan was halted at Sadarax. The Turkish Prime Minister Tansu Çiller asked parliament for permission to send troops to protect the enclave in case of further Armenian attacks and a Turkish force was placed on a state of high alert. The measure had a

dissuasive impact together with the diplomatic contacts between Haydar Aliyev, then President of the Council of Nakhitchevan, and Moscow.

The Autonomous Republic of Nakhitchevan, which has preserved its territorial integrity in the Nagorno-Karabagh war, is blockaded by Armenia on its west, north and east. All land communications with Azerbaijan are also blocked. Flights connecting Nakhichevan and Baku are the only remaining direct link. The railway is disused for most of its length. The northern connection towards Russia, Georgia and Turkey across Armenian territory is severed, as is its eastern connection to Baku. A small portion is still used for an internal rail connection with Ordubad, a few kilometres from Armenian-controlled Meghri. The southern connection towards Iran is also operational.

B. Border trade in oil products: special link between Igdır and Nakhitchevan

Igdır, a trade center built on driftsand

Security conditions in Igdır were normalized in Igdır after the second half of 90's. The city was severely destabilized by terrorism. The social and political fabric was profoundly fragmented. Local population recall fightings in the city center in early 90's. The Azeri population is quite strong in Igdır, however the Kurdish population is also significant. During the 1990's Igdır became the stronghold of the Turkish Nationalist. The Nagorno-Karabagh war and the fear from HADEP¹²² are said to be behind this trend.

The opening of the border post with Nakhitchevan boosted trade activities and transform Igdır into a dynamic city in just a few years. New buildings started flourishing. The high concentration of foreign exchange offices and hotels has become quiet impressive. The city seems to be always on the move. The trade in petrol with Nakhitchevan stimulated Igdır's rapid growth with cash flow estimated at around USD 1.5 million per week. Igdır's mayor, who also owns the city's major transportation company, Igdır Turizm, had been the most important player in the petrol border trade.

¹²² *Halkın Demokrasisi Partisi*, People's Democracy Party, is known as "the party of Kurds" in Turkey.

The Golden Age of the border petrol trade

Under a government decree passed in December 1992, the province of Iğdir was permitted to conduct border trade with Nakhitchevan. A second decree aiming at promoting economic relations with CIS countries allows the border provinces to import petroleum products within the framework of the border trade. The prefecture is responsible for regulating the trade. The special regime had been maintained for 10 years. The border petrol trade ended in 2002 by a new governmental decision.

The petrol trade was conducted under licences from the prefectures of Iğdir and Nakhichevan with the number issued dependant on the quantity of petroleum products transported. In Iğdir, licences were issued to vehicles, while the Nakhitchevani authorities granted them to individuals who were free to sell them on. Iğdir issued different licences for vehicles of four and eight tonnes; in Nakhitchevan, Russian, 3-4 tonne vehicles were most often used.

The quantity of petrol imported in Turkey fell from a monthly average of 30,000 tonnes from 1997–1998 to around 15,000 tonnes from 1999 onwards due to further regulation by the prefecture. The lack of supervision at Dilucu – which didn't have even a weighing scale – explained the huge quantities imported. It was mistakenly assumed that the petrol transported originates in Iran, but it is actually transported on Iranian trucks through Iran from Azerbaijan. Formerly, petrol was unloaded at the Iranian port of Enzali but, by using Iranian trucks, exporters avoid paying the USD 360 transit tax.

The petrol trade had been the most important source of income for large populations on both sides of the border. In Turkey, which initially issued 2,800 licences, each vehicle was going to Nakhichevan every 17 days, earning around USD 400 profit. As the number of licences increased to 5,845, the frequency of trips was limited to one every three months, with a profit per vehicle of USD 900-1,000. The 34-hour waiting time at the border was no great disincentive.

In Nakhitchevan, the sale of export license at USD 500 each used to provide an income sufficient for six months. Drivers were earning USD 50 per trip to Turkey. The concentration of licences in the hands of a very few had shaped the political and economic structure of the enclave. The rent generated by the border trade led to the making of several fortunes as well, with the consequence that the head of customs at Sadarax was considered one of Nakhitchevan's wealthiest figures.

The decision to end the border petrol trade was taken in July 2002 by a coalition government and implemented on 1st September. The main justification was the budgetary burden. In August, Nakhitchevani petrol was selling at TL930,000 (\$1.89) a litre while the Turkish price was TL1,308,000 (\$2.67). Nothing prevented Nakhitchevani products from being sold in other Turkish towns. People interviewed in Iğdir and Nakhichevan pointed to the curious coincidence of the decision to ban the border oil trade with the privatisation of the petrol distribution company, Petrol Ofisi, subsequently purchased by the influential Dogan Group.

The ban was considered highly unfair by people in Iğdir whose incomes were suddenly subject to border taxes of TL631m (\$129) per four-tonne vehicle. Turkish drivers had to pay a further \$650 on entering Turkish territory and then a tax of \$850. Meanwhile, by December 2002, 134 persons were under surveillance and a further 84 incarcerated due to investigations into illegal petrol importing from Nakhitchevan.

The interruption of the border petrol trade affected 300,000 Turkish people and 40,000 in Nakhitchevan. Prior to the crackdown, 1,000 vehicles entered Nakhichevan every day, and 400 crossed to Turkey. By early 2003, the number of border crossings had fallen to 1,000 vehicles a month.

Three years later, the border petrol trade has not completely vanished. The trade is being carried on a much limited scale and very discreetly. This trade doesn't have anymore any legal base and can't wholly be prevented as long as the difference in petrol prices remains that important. In Turkey, one liter of petrol is 2 New Turkish Liras while the Nakhitchevani price is 35 cents! Bus and/or shuttle companies and private car owners are working in the "*international transport of passengers*". Multiple trips with full petrol tanks is apparently a business profitable enough. Most of the Nakhitchevani Mercedes owners are specialized in this business. Many Mercedes cars are waiting each day at Sadarax to cross into Turkey. Turkish Customs authorities are not fooled, apparently they somehow tolerate such a small scale business. However, entries of the Nakhitchevani cars are regulated. Quotas granted to the car owners on a three month base. Entries are further regulated depending on the licences plates of the car between even and uneven plate numbers.

Interesting to note that the chief of the Sadarax Customs Gate, whose wealth was directly based on this 10 year long petrol trade, has been removed. He had to donate a considerable part of his personal fortune to the Azerbaijani state budget.

C. Economic situation in Nakhitchevan: the vital Turkish connection

Nakhichevan has to depend on Turkey and Iran as a result of the Armenian blockade and the interruption of all land communication with Azerbaijan. The links with Iran are commercial by nature, but those with Turkey are different by scope and nature. The enclave's economy has been entirely restructured with Turkish aid.

The Iranian gate

The border post at Culfa, 40km south of Nakhitchevan, opens to Iran, but trade is tepid with scarcely 150 people crossing daily. There is some shuttle trading, however. Under current legislation, Iranians are allowed to bring in products with a total value of USD 80 each year, a ceiling reduced from USD 300. Economic activity is centred in Culfa's free trade zone where there is a large number of small shops selling textiles, electronics and consumer goods, mostly from Turkey and the United Arab Emirates. Iranian nationals cross the border on foot, buy a few products and immediately return home. Trade is mainly conducted by old women whose sole qualification is the possession of an Iranian passport. The end of the petrol trade drastically reduced Nakhitchevani purchasing power, so now the Turkish goods once purchased for consumption in the enclave are re-exported to Iran.

Energy supplies

The impact of the Armenian blockade is all the more pronounced because the Soviet-built infrastructure for energy delivery passed through Armenia, which has since interrupted gas and electricity supplies to the Nakhitchevan. The power plant on the River Araxe has a capacity of 15MW but fails to meet the needs of the population¹²³. Electricity consumption per capita is very high, as in the rest of Azerbaijan. Since the interruption of gas supplies, the heating system depends on electricity. The enclave imports power from Iran under an arrangement whereby Azerbaijan compensates it with same amount of electricity it exports to Nakhitchevan. Electricity delivered from Turkey is a *de facto* gift. Turkey is providing Nakhitchevan with 40% of its energy needs.

¹²³ This power plants can only meet 8-10% of the local demand.

In winter power shortage is a major problem: electricity supply is cut every two to four hours. Winters are very rigorous with temperatures falling to -25°C . Since few buildings have generators and the city lacks lights, most activity stops at nightfall. The electrical pylons along the road from Sadarax to Dilucu show how vital this link with Turkey is, but the border city of Igdır also suffers from its own power shortages. The situation is expected to improve since the government has been working in restoring the gas supply. Azerbaijan has recently negotiated a deal¹²⁴ with Iran for the exportation of gas to Nakhichevan. Supplies will start this winter. Construction work for the rehabilitation of the gas distribution network is progressing well.

The production sector

The collapse of the Soviet Union and closure of the Armenian border condemned the enclave to a total isolation that also included the loss of its export markets. Nakhichevan traditionally specialised in viticulture with annual production of 170,000 tonnes and 17 wineries. The closure of the Armenian border devastated the sector and large areas of vines have been uprooted. Exports to Turkey were impossible due to the state monopoly on alcoholic drinks and exports to Iran were, of course, ruled out. All industrial production has stopped. The sheer size of the factories built in Soviet times made them obsolete since they had been designed to export to 20 countries, while the textile factory alone had the capacity to produce for all Turkey.

Turkey has supported sugar production in Nakhichevan with the goal of replacing one agricultural crop, grapes, with another. Seed and equipment are provided by Turkey which also pays for the crop to be transported to Agri for processing. The volume of production is fixed by agreement at 90,000 tonnes in 2004 and at 80,000 tonnes in 2005. Since self-sufficiency has been reached, the need to find export markets has emerged. In collaboration with Nakhichevani private companies, possibilities of the development of oilseeds are being investigated. Turkey, a net importer in oilseeds would be the major client.

The bilateral trade volume reached USD 34 million in 2004, Nakhichevani exports for USD 4 million, the remaining USD 30 million consists of imports from Turkey. A border trade center based at Dilucu will open soon.

¹²⁴ Background information about the commercial deal – barter system.

Turkish financial aid to the Nakhichevan University amounts to USD 500,000. Some 3,000 Turkish students are at the University at an annual expense estimated at USD 600,000. Turkey supports the armed forces of Nakhichevan with medical aid, food and clothing for 11,000 soldiers and the services of 23 Turkish officers. Turkish aid excludes weapons and ammunition.

Though Turkish relief still plays an important role in sustaining the enclave, national investments have been increasing in the last three years. The appearance of the city has been deeply transformed. One is struck by the number of new constructions. The overall rehabilitation work is remarkable. Noticeably, some cash money has started flowing in. 75-80% of the financial resources are being provided by the Azerbaijani national budget. The new airport¹²⁵, inaugurated in December 2003, is a major step forward to alleviate the effect of the blockade. The new Nakhitchevani airport has the second largest runway in the world. Therefore, it is fit for the biggest cargo transporters. Domestic flights to Baku and Gence are operating. There are two flights a week to Moscow, one to Samara. The establishment of flight connections to Istanbul and Ankara will boost the traffic and increase the regional importance of the Nakhitchevani airport: The closest airport on the Turkish side is located in Kars.

Supported by the Azerbaijani government, local businesses have been steadily developing. The “Food processing industrial complex of Nakhitchevan” set an good example for this trend.

The “Food processing industrial complex of Nakhitchevan”, a state owned enterprise, started its production as a bread factory in 2003. The driving force that led to the creation of the complex was the search for self sustainability in food processing: Nakhitchevan has to be able to feed its own population. The company started diversifying its production in 2004. The appointment of Mr Shemseddin Safarov at the head of the complex had an important impact. Mr Safarov, originally from Nakhitchevan, was a Russia based private entrepreneurs. He had previously worked in the logistics and construction sectors. He left Nakhitchevan in 1991 in a time of complete chaos. He expressed he had lost his hope in his country: the state structures were in total disarray; bad governance had led to overall anarchy. He is deeply grateful to late President Ilham Aliev for he had restaured the respect for the state. In March 2004, he accepted to come back to Nakhitchevan as the director of the food processing industrial

¹²⁵ The airport was built by a Turkish company.

complex. Today, the complex is producing flour, mainly used for the bread production. It has got a dairy products and meat products processing factories, is also producing pastas, biscuits and candies. The complex is currently employing 150 persons. Most of the employees are young and had been trained by the company. Important investments were realized to transfer technologies from Italy (macaroni production), from Turkey (bread, biscuits), Germany (meat, dairy products), Austria (meat), Russia (meat).

Mr Safarov bought the company during its privatization in 2005. He has become CEO of the company to which he was appointed director. The industrial complex is working at very low capacity: the factories are mainly producing for the local market, a small part of the production is sent to Baku. The improvement of the access to external market is essential for future development prospects of the Nakhitchevani food-processing industrial complex. The cost of the blockade is being felt very acutely.

D. The importance of the opening up on Armenia

In the 19th century, Culfa was one of the most important communication hubs of the Russian Empire since it was located at the intersection of the north-south and east-west connections. Armenia-Nakhitchevan, which straddles the east-west and north-west connections, also forms a unique logistical hub and economic area for the region. Bordered by Armenia, on its North, East and West, Nakhitchevan had developed integrated relations with this very close neighbour. As a matter of fact, Azerbaijanis living in Nakhitchevan have a deep knowledge of Armenians. Friendship and business relations were widespread. A large Armenian population used to live in Nakhitchevan; today a significant part of the Nakhitchevani population is originally from Armenia. Some have kept up with their cross border friendships.

Yerevan is at 150 km from the center of Nakhitchevan, and at just 60 km from the border post of Sadarax. Cross border relations between villages were pretty much developed. The closest Armenian villages after Sadarax are Arazdeyn, Armat, Develi and Surenevan. There used to be van connections three times a week between Nakhitchevan and Tbilisi through Armenia. The businessman, owner of the transportation company which started the Nakhitchevan-Yerevan-Tbilisi van connection, and originally from the Oktanberian village in Armenia, recalls that negotiations for the transit right through Armenia had lasted two years!

Today, Nakhitchevan is surrounded by a ceasefire line. The city has developed a deep feeling of being blockaded by an enemy that it used to know very well. Nakhitchevan is looking forward for the opening of its routes through Armenia.

The Armenian border and Igdır

The opening of the Turkish-Armenian border has been an important issue for Igdır. This city, with its large Azeri population and close economic relations with Nakhitchevan, looks towards Yerevan. Representatives of the Chamber of Commerce of Igdır advocated for the opening of Alican Kapi border gate.

Igdır considers the Armenian capital is an important market. Yerevan is half an hour far away from the border gate Alican Kapi. It is doubtful if the traders of Igdır could become the only providers of the Armenian capital, as competition on the Armenian market has increased tremendously over the last 10 years. Establishment of new distribution and marketing channels prevent easy access to the market. The opening of the Alican/Makara border crossing will boost the development of the logistics and transportation sector in Igdır. A high concentration of trucks and vans bought for the petrol trade with Nakhitchevan have been waiting unused.

Part IV

1. The New Pattern of Turkish-Russian Relations: Increasing Interdependence through a Pragmatic Approach Based on Business Initiative

A. Preparing the End of the Cold War: The Turkish-Soviet Economic Cooperation in the 80's

The Soviet Union was one of the first countries to recognize the Republic of Turkey in 1920's and offer economic assistance. The clearing agreement signed back in 1937 established the basis for economic and commercial relations between Turkey and Russia, which gained a substantial momentum in 1970's when Premier Alexei Kosygin and Prime Minister Süleyman Demirel initiated a period of Soviet assistance to the industrialization of the Turkish economy.

Economic relations between Turkey and the Soviet Union have been steadily developing in the 80's. The signature of the protocol enabling transaction in foreign currencies of May, 20th 1982, the natural gas agreement of September, 17th 1984¹²⁶, construction of housing for Russian servicemen leaving Germany, had been insignificant steps that sustained this momentum. The Natural Gas Agreement signed in 1984 marked the beginning of a new era in Turkish-Russian commerce. This agreement included an "off-set" clause that allowed Turkey to partially pay for the imported gas with goods and services to be exported to Russia. This led to a remarkable increase in the merchandise trade between the two countries and enabled the Turkish contracting companies to enter the Russian market.

Turks, who had been buying for several years natural gas from the Soviets, were willing to increase to cover needs of the Eastern provinces. According to the agreement signed in 1987, Moscow accepted to supply Turkey with 1,5 billion m³ of natural gas per year. In exchange, Turkey would provide Soviets with agricultural products. The bilateral trade volume increased tremendously between 1980 and 1991. Turkish exports to the Soviet Union increased by 261,4% and imports by 506, 4%.

The Turkish Eximbank was established in 1987. Between 1987-1991, the total amount of loans allocated to the Soviet Union reached USD 1,15 billion.

¹²⁶ The agreement came into effect in 1987 for a duration of 25 years.

The USD 8 million loan of the German government for the construction of housing to Russian militaries leaving Germany, benefiting to Turkish firms. Turkish building companies entered at the end of 80's the Soviet space to competing successfully with companies from Yugoslavia, Finland, Bulgaria.

B. The Russian Federation : Turkey's first economic partner in Eurasia since the early 90's

There was a flurry of visits between Russia and Turkey soon after the collapse of the USSR. These included the visit of Foreign Minister Hikmet Çetin to Moscow on January, 1992 and a reciprocal visit to Ankara by Russian Foreign Minister Andrei Kozyrev next month. During Prime Minister Süleyman Demirel official visit to Moscow on May 1992, the *"Treaty on the Principles of Relations between the Republic of Turkey and the Russian Federation"* was signed. This treaty established the legal basis of the relations between the two countries and also confirmed the willingness to improve their relationship.

The first official contacts between Turkey and Russia took place in a context of an escalation of the Nagorno-Karabagh conflict. A week after direct rhetorical confrontation triggered by the move of Armenian troops close to the Nakhichevani border, the Turkish Prime Minister, Mr Demirel, paid a visit to Moscow. At this occasion, Turkey and Russia agreed on a protocol aiming at boosting the bilateral trade from USD 2 billion to USD 10 billion before the end of the XXth century. Russia promised to increase natural gas supplies to Turkey. The newspaper Independent in its issue of May, 25th, 1992, headlined : « *Turkey seeks trade rather than war with Russia* ». Immediately, after his return from Moscow, Mr Demirel traveled on May, 28th 1992 to Nakhichevan for the opening of the border post on the Aras river linking Turkey to the Azerbaijani enclave.

In June, 1992, Istanbul hosted the Russian President, Boris Yeltsin for the first summit meeting of the Black Sea Economic Cooperation (BSEC). In five hundred years of bilateral diplomatic relations, it was the very first time that a Russian head of state visited the city on the Bosphorus. Foreign Minister Çetin paid another official visit to Moscow on March 1993, while Prime Minister Tansu Çiller made an official visit on September 1993. During the visit, the « *Joint Transportation Committee and a Working Group in the fields of telecommunications, industry and transfer of high technology* » were established. Russian First Deputy Prime Minister Oleg Soskovets paid an official visit to Ankara on July 1994 and

signed two Protocols on bilateral economic relations and debt rescheduling related to the Turkish Eximbank loans extended during the Soviet Union period.

It is noteworthy that the conflict between Armenia and Azerbaijan didn't affect the Turkish-Russian bilateral relations. The official contacts were intensified and had been the opportunity, beside the signature of an energetic agreements, of sending common messages on the Caucasus. The Independent headlined on September, 10th, 1993 «*Turkey and Russia United on Armenia*»¹²⁷.

A New Era of Interdependence

Turks and Russians have never had such amicable contacts, never intermingled and cooperated so closely, and for so much mutual economic advantages, as in the last six years. “*Russia still wants to reach the warm waters of the Mediterranean through Turkey*”, Mikhail Gorbachev said in a speech in Ankara, “*but with Russian tourists*”. Business communities in both countries have been crucial in this transformation of relations: business leaders knew that mutual interdependence, woven by trade, would eliminate many of the remaining traces of enmity.

In the mid-90's, the Russian Federation has become Turkey's first economic partner among the former Soviet Republics. Its trade volume with Russia represents 90% of its exchanges with the CIS region. Turkey is Russia's second largest trade partner after Germany. The Russian market is a valuable outlet for the Anatolian small and medium enterprises (SMEs) not competitive enough to enter the EU market.

Economic exchange, foreign trade – both official and unofficial – tourism, the retail business and construction by the Turkish business community sustained peak levels in the mid-1990s with trade volumes rising from USD 500 million in 1986 to USD 4 billion in 1997. Russia is Turkey's second-biggest trading partner as far as imports go, and is in eighth place for exports from Turkey. Trade between the two countries rose by almost 60% in 2004 and came to a figure of around USD11 billion. Officials and businessmen set the goal of bringing the bilateral trade up to a level of at least USD 25 billion over the next few years.

¹²⁷ Womack, Helen ; “Turkey and Russia United on Armenia”, The Independent, 10 Septembre, 1993; « Mme Ciller veut éviter une confrontation avec la Russie dans le Caucase », Le Monde, 11 septembre, 1993

The shuttle trade boost the development of textile factories and warehouses in Istanbul - with a high concentration in the Laleli district - and some provincial cities. This informal trade is an important source of income for many Russians and allows some to gather capital and become the first small entrepreneurs of Russia. In the first half of 90's, each person was allowed to take back to Russia products of a total value of USD 10.000. Russian authorities have been increasing restrictions to limit the fiscal evasion. In 1997, the share of the shuttle trade in Russian imports was estimated at 22,4%. In 1996, the volume of the shuttle trade was approximately USD 8,8 billion, in 2003 was estimated at USD 4 billion.

Turkish construction companies, meanwhile, have given a new look to Moscow by building dazzling business headquarters for Russia's new rich, or rebuilding such seats of political power as the State Duma and the White House. Turkish contractors had entered the Russian market with the tenders for housing projects for Russian troops. The *"Housing Construction Program in the Russian Federation, Belarus and the Ukraine"* aimed to provide homes for members of the former Soviet Army returning to their home countries from former East Germany following the unification of East and West Germany. In 1991, the German Federal Government provided DM 8,35 billion for the housing program to build over 45,000 apartments. This program was accomplished successfully in the 1991-1996 period. About thirty building companies have been involved in 250 projects in Russia for a total amount of USD 7 billion. In the 90's, Russia has become the first market for the Turkish construction sector. Between 1990-97, projects in Russia constitute 42% of the activities of the whole sector. Turkish construction companies have been involved in projects in Moscow, St-Petersburg, Tataristan, Baskortostan, Sverdlovsk, Vladimir, Rostov and Krasnodar. The cumulative amount of their businesses has exceeded USD 12 billion.

Some Construction projects realized in Russia by Turkish companies

Ramstore Supermarkets	Volgograd Military Housing Project
Petrovksy Passage (renovation)	Morosowsk Military Housing Project
Maly Gum (novation)	Strugi-Krasnye Military Housing Project
White House (renovation)	Hospital for World War II Veterans
Moscow International House of Music	Tchaikovsky Military Town Hospital
Paveletsky Tower	Gubkinsky Hospital in Tyumen
Riverside Towers	Obstetrics and Gynaecology Clinic in Moscow
Mosenka Park Towers	Maternity Hospital
Sadovaya Plaza	Moscow Central Clinic Hospital
Tchaikovsky Military Housing Project	TSITO Hospital
Egorlyskaya Military Housing Project	OBP Hospital (renovation)
Krasnodar Military Housing Project	Bakulev Cardiovascular Hospital
Baranovich Military Housing Project	

Volinskaya Hospital (renovation)
Barvikha Sanatorium (renovation)
Stivgar Hospital
Tyumen Intensive Care Hospital
Krasnousolsk Sanatorium
Mars Confectionery Plant
Podreskova Ceramic Production Plant
Danone Milk Production Plant
Fritolay Potato Chips Factory
St. Petersburg Mint
Gazprom Administrative Buildings
Elkat Copper Rod Plant
Tverskaya Business Center
Nevsky 25 Business Center
Taganka Business Center
Lentrangas Office Building
Marksistkaya Business Center
Gubkina Business Center
Rusky Capital Headquarter Building
Turkish Embassy Building in Moscow
Iranian Embassy Building in Moscow
Ministry of Foreign Affairs Building (renovation)
RF Supreme Court Building
Platinabank Building
Sberbank Building
Mostbank Building
Menatepbank Building
Druzhba Hotel Stavropol
Rosneft Office Building
Samara Neftegaz Building
Ingushetia Parliament Building
Pokrovsky Hills Villas
Kuartal Apartments
Proton Hotel
Hotel Kuban
Hotel Sibirski
Kuskinskaya Theatre

Source: Turkish Foreign Economic Relations Board

Antalya and other resorts on the Turkish Mediterranean have replaced the Crimea as the favourite vacation address for those Russians who can afford to go on holiday. Turkey is the most visited country by Russians. 1.3 million tourists visited Turkey in 2003, and 1,7 million in 2004. Several charter flights link Moscow to the Mediterranean seaside Antalya.

Direct investments

The financial crisis in 1998/99 and the devaluation of the ruble had forced the Russian government to introduce import substitution policies, which made it difficult for Turkish exporters to increase their presence in the Russian market. That was a turning point in the history of Turkish-Russian economic and commercial relations, because as a response to the changing circumstances, Turkish companies began to look at Russia with a longer term perspective and emphasize more on direct investments rather than considering this market only as an export destination and hence a source for short term profits. Turkish direct investments in the Russian economy have currently reached USD 1.5 billion. Russian investments in Turkey are estimated at USD 200 million – USD 300 million. Russia is actively participating to the privatization process in Turkey. The Alfa Group decided to invest recently USD 3.3 billion in the Turkish telecommunication sector. Alfa Group has recently concluded a deal with Cukurova Group for a 13.2% stake in Turkey's largest mobile operator Turkcell. Tatneft, which won a tender for Turkey's largest petrochemical company, and Europe's fourth largest. Russian metal companies seem also interested in taking part in Turkey's metallurgical industry.

In their meeting at Sochi, President Putin and Prime Minister Erdogan express their commitment to ensure a favourable political climate, for business. Mr Erdogan was reported as saying: *“Investors demand security and an atmosphere of trust. Investors will go to Russia, to Turkey, only when they see that the right conditions are in place. If they don't find these conditions in our countries, they will go wherever these conditions are offered, because the ultimate aim of any businessperson is to make a profit”*.

Turkish investments in the Russian Federation

ENKA Holding

ENKA is not only the Turkish contracting company with the highest business volume in Russia but also the first foreign investor in the Russian real estate market. ENKA leases land from the Municipality of Moscow, on which it builds business centers, malls and residential complexes. In Moscow, ENKA's share in the A-class commercial office building market is more than 25%, which makes the firm a leader in this market.

Ramstore

Ramenka, a joint venture established by two Turkish corporate giants Koç Group and ENKA Holding, operates the retail chain “Ramstore”, which is currently the largest of its kind in Russia. The first Ramstore was opened in 1997 with credits obtained from Turkish Eximbank. The latest Ramstore opened in Russia is the one opened in Nizhny Novgorod in December

last year, which brought the total number of Ramstores in Russia to 25. Ramstore has been the first in Russia to provide the Russian people with a western style shopping experience together with a large variety of products as well as facilities for dining and leisure. 5% of all the products sold in Ramstore outlets are Turkish products, whereas 55% are Russian and 40% are imported. In 1997-2003, the company invested USD 250 million in creating and expanding the Ramstore chain, including USD 100 million in 2003. This year, Ramenka's turnover is expected to amount to USD 560 million, up from about USD 430 million last year and about USD 300 million in 2002.

In 2004, Ramenka plans to open at least 10 new stores, while last year the company's network expanded to 25 from 15 outlets, of which 22 are in Moscow, and one each in Kazan, Krasnoyarsk and Nizhny Novgorod. This year, the chain is to open a new store in Rostov-on-Don, two in St. Petersburg, second outlets in Kazan and Krasnoyarsk, as well as stores in Novosibirsk and Samara.

Efes Breweries

Efes Beverages Group, a subsidiary of Anadolu Group of Companies, has entered the Russian market with a Coca Cola production plant opened in Rostov-on-Don in 1996. The second investment of the group was the Efes Brewery in Moscow, which was opened in June 1999. In 2003, the Coca-Cola plant in Rostov-on-Don was converted to a brewery and the Amstar beer factory in Ufa was acquired, increasing the number of MEB (Moscow Efes Breweries) plants to three and the total production capacity to 520 million litres. In 2003, MEB became the third biggest producer on the Russian beer market, with a share of 16%. MEB managed to achieve a growth of 33% in Russia, a rate that is much higher than the 7% growth of the Russian beer market.

Efes offers five different brands, which are Efes Pilsener, Stary Melnik, Warsteiner, Betiy Medved and Skonol. Stary Melnik is the leader of its segment (local premium) with a market share of 24% and so is Efes Pilsener in the licensed premium segment with 16%. Efes is also pursuing a project of "internet pub chain" in Moscow and the rest of Russia. The first pub was opened in Russia in April 2003 and Efes is planning to increase the number of internet pubs to 20 in Moscow.

Ruscam

Sisecam, one of the world's leading producers of glassware, operates a factory in Gorohovets, a town 330 km to Moscow. The factory has 43 thousand square meters of indoor area built on a land of 17 hectares. It is producing bottles and glass packaging for foodstuff. The first furnace of the factory was opened in September 2002 and the second furnace became operational in May 2003. The third furnace is about to be completed and it will increase the total production capacity of the factory to 340 thousand tons a year. Ruscam has now the capacity to meet 20% of total Russian demand for glass bottles.

Ruscam is not only enlarging the capacity of its factory in Gorohovets, but also purchasing new production facilities. The company has lately bought 76% shares of the Pokrovosky Glass Factory located near St.Petersburg. This factory has a production capacity of 75 thousand tons a year.

Vestel

Vestel, the flagship of Zorlu Group, which has also partnered Tatneft in the sale of Tüpras Refineries, is the first foreign company to produce TV sets in Russia. In November 2003, Vestel opened a factory in Alexandrov, a town 120 km to Moscow, on a 120,000 square meter area, of which 40,000 square meters is closed. The factory has a production capacity of 1 million TV sets per year. In the first phase only TV production would be made, and later the

range would be extended to products such as DVD and DVB. As one of the leading exporters in Turkey, selling its products to 103 different countries, Vestel shows a continued aim to expand. Vestel, with its manufacturing range of several different electronic and white goods, is developing a new approach in order to offer consumers products made by other companies. In line with this strategy, Vestel has forged strategic partnerships with leading world brands on products that it does not manufacture itself. These include the French brand Moulinex for small household gadgets, the Italian brand Zanussi for built-in products and the Japanese brand JVC for digital cameras and other digital products.

Colin's Jeans

Colin's Jeans is one of the best selling brands of denim products in Russia. The owner of the brand, Eroglu Group, entered the Russian market in early 1990's with exports and later established a factory near Moscow. In addition to its factory, Colin's Jeans operates 26 outlets throughout Russia and sells its products at 286 sales points.

TEBA Household Products

TEBA is one of Turkey's leading exporters of white goods, household products and air conditioning equipment. It has production facilities in Turkey and also in the USA. As a part of its strategy to expand in the Russian market, the company has decided to move production facilities to Russia. To this end, the company has opened a factory in Kazan, the capital of Tataristan.

Ütüsan/ZASS Household Products and Heating Systems

The partnership between the Turkish household goods producer Ütüsan and German ZASS GmbH has been successfully operating since 1988. In 2003, this partnership opened a factory in Russia under the name "ZASS Alabuga". With its wide range of products including irons, different kinds of heating systems, grills, barbecues, ventilators and electrical kitchen products, Ütüsan/ZASS is increasing its market share in Russia.

Rontelekom

The Turkish telecommunications firm Netas has established a joint venture with the Instruments Making Works Plant of the Ministry of Atomic Energy and the Municipality of Chelyabinsk in 1995. "Rontelekom" manufactures telecommunication systems and software.

Binmeksan Fuel Pumps

Binmeksan is a joint venture of Turkish Meksan and Summa companies and their Russian partner. Their factory opened in the suburbs of Moscow in 2000 is manufacturing pumps for fuel stations. Its production capacity is 5 thousand pumps a year.

Turkish Trade Center

The Turkish Trade Center in Moscow is a joint investment by TOBB (Turkish Union of Chambers and Commodity Exchanges) and TIM (Turkish Exporters Assembly). The center, which will be opened in May 2004, consists of commercial office space as well as 55 shops, cafes, restaurants and 6 theatres. The Turkish Trade Center, which is only 5 minutes of drive to Kremlin, will be the heart of Turkish business in Moscow.

Turkish banks in Russia

Five Turkish banks have opened branches in Moscow. These banks are Finansbank, Garantibank, Denizbank, Yapi Kredi Bankasi and Ziraat Bankasi. According to the data released by the Turkish Undersecretariat of Treasury, the total amount of capital exported by

these banks is USD 87 million. Turkish companies are expected to increase their investments and new companies are expected to enter the Russian market in the near future, parallel to the developments in the Russian economy. It can be said that mainly large companies are investing in Russia. However, there are also several SMEs profitably investing in Russia.

Energy

Russia is Turkey's single largest supplier of natural gas which has been the biggest single item in Turkish-Russian trade since 1987, when Russia first began deliveries. Russia is scheduled to deliver 14bn cubic metres (bcm) of gas annually to Turkey. The Blue Stream project, negotiated in December 1997, will increase the annual amount to 30bcm by 2010. Russian media estimate that total earnings from natural gas exports to Turkey will reach at least \$7bn annually by 2020.

In terms of energy security, Turkey's dependence on Russian gas supplies is more critical and will increase significantly in several years. Unlike oil, which Turkey has no difficulty in acquiring, the country is entirely dependent on imports to meet domestic demand for natural gas. Turkey signed her first gas agreement with the Soviet Union in 1986 when domestic consumption was close to 500m cubic metres; by 2002, it had reached 19bcm. Demand is expected to reach 55.1bcm in 2010 and 87.9bcm in 2020¹²⁸ Some 23% of electricity production is from natural gas, a share expected to grow to 30% by 2010.¹²⁹ Turkey has signed six gas agreements,¹³⁰ three with the Russian Federation which supplies 14bcm annually through the Balkans and a further 16bcm planned through the Blue Stream.¹³¹

Prime Minister Viktor Chernomyrdin's visit to Turkey on December, 16th – 17th 1997 was the first by a Russian head of state in the post-Soviet period. Its purpose was to close a huge natural gas deal, dubbed Blue Stream. Turkish Prime Minister Mesut Yilmaz expressed the government's desire to cooperate, rather than compete, with its neighbour and Chernomyrdin declared: *“If Turkey shakes the hand extended by Russia, we shall become strategic partners in the economy in the 21st century ... We shall be able to do much together in third countries and contribute to the assurance of stability and tranquillity in the region.”*

¹²⁸ Botas, Turkey's natural gas demand forecast.

¹²⁹ The increased rate is more important than the average rate for OECD countries: 30% of electricity will originate from natural gas by 2020.

¹³⁰ Turkey has signed agreements with Russia, Iran (10 bcm), Algeria (4 bcm) and Nigeria (1.2 bcm).

¹³¹ The first Blue Stream pipeline was completed on 1 March 2002.

The 1,200km pipeline is running from Izobilnoye to Arkhip-Osipovka in Krasnodar region, underwater to the Durusu terminal near Samsun and overland to Ankara. The Blue Stream project was finalised in a very short time. A memorandum was signed between Russia's Gazprom and the Italian construction company ENI in February 1999, construction began in September 2001 and the work was completed in June 2002. Gas supply started in February 2003. The Blue Stream tightly links Turkey and Russia under the Black Sea and the emphasis has been on the project's bilateral nature which excludes any intermediary countries. Meanwhile, the Caucasus is increasingly seen as a crossing zone between the two countries.

The Blue Stream gas pipeline, with a designed capacity of 16 billion cubic metres a year, delivers currently 4.7 billion cubic metres a year. There is therefore considerable potential for increasing supplies. One of our main objectives is to expand the pipeline, which currently runs to Ankara, to Ceyhan in the south. Russia is eager to develop its cooperation in the energy field and is *«ready to build large underground gas storage reservoirs on Turkish territory, to enter Turkey's gas distribution networks through the privatisation process, to use existing gas pipelines on Turkish territory and take part in building new ones to transport our energy resources across Turkey to other countries »*¹³²

C. Linkage Business & Politics: Developing a Strategic Partnership with a Regional Outreach

Turkish-Russian relations gained a considerable visibility since the end of 2004. Turkish Prime Minister Erdogan and Russian President Putin have met four times between November 2004 and July 2005. Meetings have been widely publicized. Turkish and Russian press gave an important coverage of the events. The public diplomacy dimension was at the forefront. President Putin was eager to address directly to the Turkish business community and population as a whole. Turkish public reacted very receptively. It is being stressed widely that bilateral relations are developing steadily in a very warm atmosphere. After the last meeting of the head of the states in Sochi in July, 2005, that a decision to organise a *Year of Turkey in Russia* and a *Year of Russia in Turkey* has been taken.

¹³² President Putin at the joint press conference after his meeting with Turkish Prime Minister Erdogan in Sochi.

The historical visit : Putin in Ankara

President Putin has been the first Russian president to pay a state visit to Turkey in 32 years, following the 1973 visit of titular USSR head Nikolay Podgorny¹³³. Russian President Vladimir Putin arrived in Ankara on December 5th 2004, accompanied by the Presidents of Tatarstan and Ingushetia, Foreign Minister Sergey Lavrov and Industry and Energy Minister Viktor Khristenko. President Putin's visit was originally scheduled for September 2nd – 3rd, but it had to be postponed after Beslan attack.

The visit was therefore publicized as an historical event aiming at opening “*new horizons in Turkish-Russian relations*”. In his keynote address, President Putin stressed that “*longstanding commercial, economic and political ties between the two countries served to bind them together*”, and added that “*the fates of their two peoples are interconnected*”. In addition to a joint political declaration entitled “*Joint declaration towards strengthened friendship and multilateral partnership between Ankara and Moscow*”, six agreements were signed¹³⁴.

Erdogan and the important business delegation in Moscow

Turkish Prime Minister Recep Tayyip Erdogan led the Turkish delegation, comprising 52 MPs and 600 business executives to Moscow on January, 10th -12th, 2005. The centerpiece of the visit was the opening of a Turkish Trade Center in central Moscow. Erdogan's press office hyped the visit as *'probably the busiest ... made by one our [Turkey's] leaders.'* The January, 12th statement went on to say that Turkey's *"economic ties with Russia*

¹³³ Press agencies – combined report, December, 8th, 2004 “Former Foes Build on Booming Trade, -- President Vladimir Putin oversaw the signing of a series of agreements with Turkey on Monday during a rare visit meant to boost trade and counterterrorism cooperation between the two countries, which have been rivals since the time of tsars and sultans. Putin arrived late Sunday on the first-ever official bilateral visit by a post-Soviet Russian leader -- a record that reflects the troubled history between the nations, both the kernels of empires that struggled for supremacy at their heights and still compete for clout”.

¹³⁴ • Agreement to Prevent Dangerous Acts in Extra-Territorial Waters
• Agreement to Mutually Protect Classified Defense Industry Information Exchanged Between the Governments of Turkey and Russia
• Agreement for the Protection of Intellectual Property Rights in the Area of Bilateral Military and Technical Cooperation
• Memorandum of Understanding for Cooperation between the Turkish Foreign Ministry's Strategic Research Center and the Russian Foreign Ministry's Diplomatic Academy
• Framework Agreement for Cooperation between BOTAS and Gazprom in Energy.
• Protocol for Cooperation Between the Turkish and Russian Eximbanks

are ripe for growth," adding that Ankara expected "an influx of Russian capital." Russian President Vladimir Putin reciprocated the enthusiasm expressed by Turkish leaders and established a tight linkage in between business and politics in his opening address at the meeting at the Kremlin with the Turkish business community representatives¹³⁵.

Abstracts from President Putin's address..

[...] It is clear that growing mutual interest among businesspeople in both our countries will require us to remove the barriers in the way of capital and goods flow. It also requires balanced resolution of disputes and ultimately obliges us in both Russia and Turkey to take an effective approach to building up modern infrastructure for our foreign economic ties. [...]. I want to stress that our dynamic political dialogue, a dialogue between neighbours committed to the principles of democracy and openness, forms a solid foundation for our trade and economic partnership. In this respect, I see the political declaration signed in Ankara on December 6, 2004 by myself and Turkish President Sezer as an important step. We can say that Russian-Turkish cooperation is now taking place in an ever growing spirit of mutual trust, equality and respect for each other's interests.

We welcome and appreciate Turkey's success at the Brussels summit with the European Union. As you know, Russia is also developing a strategic partnership with the European Union and we are building a common economic space together. The European Union accounts for more than 50 percent of our trade turnover and we hope that Turkey's integration into the European Union will open up new opportunities for Russian-Turkish business cooperation. At the same time, it is very important to preserve what we have achieved thus far. All that is good and useful that we have built up through our joint efforts must not be lost. What is important here is careful calculation, pragmatism and, of course, analysis of the new EU member countries' experience. We discussed this subject, though briefly, in Ankara.

Many of the barriers that stand in the way of trade and economic cooperation can undoubtedly be removed after the completion of Russian-Turkish talks on Russia's accession to the World Trade Organisation on acceptable conditions. [...]. Coordination of the economic regulations in our countries, consistently pursuing market principles in our economic ties and expanding entrepreneurial freedom are of crucial importance in this respect.

Our national goals to modernise our economies have a lot in common. The Russian and Turkish governments are both striving to improve the investment climate, expand the domestic market, encourage innovation and develop export opportunities. This creates real prospects for increasing our investment cooperation and diversifying our trade turnover by taking real steps like compensating the trade deficit and correcting the imbalance in investment. The work carried out as part of the joint meetings of our two countries' Business Council will also be of undoubted use and assistance.

¹³⁵ "Opening Address by Russian President Vladimir Putin at the Meeting with Turkish Business Community Representatives, Moscow, the Kremlin", January 11, 2005. Published on the official website of the Ministry of Foreign Affairs of the Russian Federation, www.mid.ru

The informal meeting in Sochi

After the third meeting in Moscow at the ceremony of the 50th anniversary of the end of WWII, Mr Erdogan visited Sochi, Russia's holiday resort, as guest of the Russian President Putin. Russia and Turkey were presented by the Russian President as «*longstanding and reliable partners*». The talks in the Black Sea resort of Sochi highlighted prospects of Russian-Turkish economic cooperation and regional issues. Although public statements focused mainly on economic issues, both leaders said they had discussed a range of regional issues such as the situations in Iraq, Iran, and the Caucasus, and the Nagorno-Karabakh conflict.

2. Transferring the Turkish-Russian Cooperation to the Caucasus: The End of the Common Border

A. Rediscovery of the Caucasian borderlands : the Kars treaty tested

The Moscow and Kars Treaties of 1921, which established the Soviet-Turkish border, as a result of the entente between the Kemalist government and the Bolshevik regime in 1920-21, gave birth to 70 years of stability. In the early 1990s, the days of Turkey sharing a land border with the USSR ended and it discovered its Caucasian neighbors. For the first time in several centuries (with the exception of 1918-1920), Turkey and Russia have no land frontier. Celebrations of the fall of the Soviet Union had been short lived.

The newly rediscovered Caucasian borderlands transformed the Turkish-Soviet border in an area of instability and brought the risk of a direct confrontation with Russia, reminding of the recurrent Turkish-Russian wars of the past century. The new context questioned practically the validity of the Moscow and Kars treaties, one of the cornerstones of the establishment of the Turkish Republic.

Not sharing anymore a common border with Russia represented an unexpected challenge for the guiding principle of Turkish foreign policy “*peace at home, peace in the world*” attributed to Atatürk. The Republic of Turkey was founded in 1923 on the rejection of any expansionism drive. Memories of the Turkish troops crossing the Arpacay river and reaching the Caspian sea on the eve of the collapse of the Ottoman Empire, the Mudros truce and the Sèvres Treaty are still fresh in memories. Subsequently, Turkey refrained from

involvement in turbulent neighboring regions, the primary aims of its foreign policy have been throughout the years to strengthen its statehood, preserve territorial integrity and independence.

Turkey and Russia seemed to have come to the brink of war in the context of an escalation of the Nagorno-Karabagh conflict. Tensions raised considerably as Armenian forces were advancing towards the Nakhitchevani border. According to the Kars Treaty, Turkey is a guarantor state for the Azerbaijani autonomous territory and cannot transfer the protectorate to any third country. Turkish troops were on alert on the Armenian border, near Gyumri. The Turkish commander of Land Forces, general Muhittin Fisunoglu announced that “*all necessary preparations*” had been made, and that the army was awaiting orders from Ankara to act. A strongly worded statement from the government also accused Armenia of “*aggression and expansionism*”. On August, 18th, 1993, Turkish Prime Minister, Tansu Ciller asked the Parliament to allow to mobilize troops in case Armenia attacked Nakhitchevan. Rhetoric became even harsher since Russia resorted to explicit nuclear intimidation to deter Turkey; the commander in chief of the CIS armed forces warned of a 3rd world war if Turkey intervened in the war to help Azeri forces back the Armenians. The Turkish troops refrained from crossing the Arpacay river, and Armenian forces stopped at Sadarax on the Nakhitchevani border. The Kars treaty had been tested and proved its validity.

B. Russia, a virtual neighbor along the land border defined by the 1921 Friendship treaty

The fact that Turkey had not a common border with Russia was considered in Turkey a major strategic gain after the dissolution of the USSR. However, shortly after, unfolding events created the impression that Russia will never withdraw from the old-aged frontier and was remaining a virtual neighbor along the same land borders with Turkey that were defined by the 1921 Friendship treaty. Some voiced the concern that Russia was likely to pose even a greater threat to Turkey's than it did during the Cold War. Turkey viewed Russia's desire to reconsider its TLE quotas on the North Caucasus envisioned by the CFE treaty and to increase its military presence in Armenia and Georgia as a major security concern.

The Russian military doctrine, adopted on November, 2nd 1993, implicitly assumed that the borders of the Russian security zone corresponded with those of the CIS. At the CIS summit of May, 1995 held in Minsk, Russia proposed an agreement on the protection of external CIS borders, and had to face a refusal. As a result, Russia managed to develop

cooperation in the border protection only with states that were willing to accept Russian borderguards. In the South Caucasus, only Armenia accepted. Georgia, due to the Russian pressure, also agreed on Russian deployment of troops along its borders with Turkey. In January 1993, Russia transformed the Transcaucasus Military District into the Group of Russian Troops in Transcaucasia (GRVZ), and deployed them in Georgian and Armenian bases, along the border. On June, 1st, 1995, the chief of the Russian Ground Forces, colonel general Vladimir Semenov, announced that in order to maintain stability and tranquility in the region the 58th Army had been formed with its headquarters in Vladikavkaz¹³⁶. The main elements of Russian southern Caucasus policy were determined as reinforcing southern CIS border adjoining Turkey and keeping Turkey out of the area by every means possible.

The new-old tensions transform South Caucasus into a grey area for Russo-Turkish rivalry

In the 1990's the scene appeared to be set for a revival of the 400 year old Turkish-Russian competition. The post Cold War regional context provided the ground for arguments about the inborn hostility allegedly existing between the two people, had always regions where their interests and claims clashed. Turkey, perceived as an independent actor or the proxy of western countries in the area, rediscovered its role as Russia's natural geopolitical rival in the region. The opening of the Caucasus to Turkey sparked competition with the region's northern connections to Russia and bipolar thinking, the legacy of the Cold War, continued to be applicable to the region. But the tensions had not so much involved Russia and Turkey as the countries situated between them. South Caucasus had been doomed to repeat its history as a grey area for Russo-Turkish competition.

Seen from Russia, Turkey was one of the main beneficiaries of Soviet collapse, a rival out to cherry-pick pieces of its former realm. Most fears concentrated on Turkish policies in the Caucasus which were considered likely to contribute to a break-up of the Federation's territorial integrity. Turkey's position at the forefront of regional polarisation gave birth to the 'new-old' divisions and exacerbated the confrontational discourse and stance. Turkey, in its alliance with Ukraine, Azerbaijan and Georgia, was seen as pitted against Russia and Armenia. In addition, Turkey's closure of the Black Sea straits to large oil tankers and its endeavour to construct pipelines from the Caspian that bypass Russia were seen as clear

¹³⁶ Allison, Roy, "Military Forces in Soviet Successor States", ADELPHI Paper 280, London, IISS (1993)

signals that Russia was being rolled back, left only with Armenia with which it lacked a border and which is a net-consumer of Russian security. It is widely acknowledged that the energy issue had given the old historical rivalry between Turkey and Russia a sharper geopolitical and economic focus. In this regard, the BTC was the linchpin whose fate would decide of Turkey's ability to achieve its broader objectives in the Caucasus-Caspian region.

The long history of continuous conflict between Turkey and Russia is full of negative images that amalgated into a pile of suspicion, resentment and fear on each side, a legacy haunting minds.

Russian-Turkish Mistrust: Security Perceptions

Insights from Russia¹³⁷

- Turkey is accused of encircling Russia by leaping into the former Soviet space. The major source of security concerns are:
 - *Turkish intelligence of operating in Abkhazia against Russian interests*
 - *Turkish aim to take Moldova under her wing, training of Moldovan military officers in Turkey and development of cooperation between the Moldovan military officers in Turkey, development of cooperation between the Moldovan and the Polish defense ministers and the Turkish general staff*
 - *Turkey endeavor to extend her influence into Crimea and into the Moslem peoples of the Russian Federation*
 - *Her willingness to establish close links with both Georgia and Azerbaijan, which are the main platforms for spreading her influence in the southern regions of the former Soviet union. The Trabzon agreement signed by the three Presidents in April 2002 was an indication of Turkey's desire to enhance her strategic presence in Transcaucasus.*
 - *Fact that relation with the Russian Federation are not just being conducted with the Federal government as shown by the visits of Tatarstan and North Ossetian Presidents to Turkey.*

Insights from Turkey

Turkey remains wary about Russia's geopolitical ambitions in the Caucasus especially Moscow's close military ties to Armenia:

- *In 2000: Russia and Armenia signed a series of defense agreements that broaden defense cooperation and strengthen Moscow's military position in the region. A particular concern is Russia's decision to supply Armenia with MIG 29 and S300 missiles to be deployed at Gyumri, one of Russia's two bases in Armenia.*
- *Russia's policy toward Georgia has been viewed with concern in Ankara: the demand for 14 year period to withdraw from its bases at Batumi and Akhalkalaki, visa regime for Georgians working in Russia, demanded the creation of a joint police force to petrol areas of*

¹³⁷ Natalya Ayrapetova, Nezavisimaya Gazeta, May, 2002, in Mark A. Smith, Turkey & Russia Conflict Studies Research Centre

the Georgian border with Chechnya and periodically cutoff gas supplies to Georgia. June, 2002, the Russian Duma amended the law on Russian citizenship to allow residents of Abkhazia and South Ossetia to become Russian citizens.

Turkey, new front line state within NATO

According to scenario elaborated in the 90's, a prelude to an attempt by Russia to seek to bring the whole Caucasus including Georgia and Azerbaijan under its control would have far-reaching consequences. Such an effort would bring Russia's military presence closer to Turkey's border and undercut Turkey's attempts to expand its influence in the Caucasus.

A new Cold War with Moscow would likely take the form of friction on Russia's Southern periphery rather than a more direct confrontation in Europe. Ankara was concerned to be left to face such "flank risks" alone. One of the main reasons for Turkey's initial lack of enthusiasm for NATO enlargement was Ankara's fear that this would provoke Moscow to try to expand its military presence in the Caucasus.¹³⁸ The security challenges were perceived as being harder, more direct and more likely to involve the use of force in the eastern Mediterranean, especially on Turkey's borders. Turkey emerging as the new front line state within NATO.

The grandeur of Russia cannot be built on the ruins of the Caucasus

The Russian political elite could not entirely abandon the military component in its foreign policy overnight. One reason for this was the old stereotypes deeply entrenched in Russian security thinking since Russia's advance into the Caucasus in the 18th century. Moscow is viewed as pursuing the strategy of creating problems and then coming in as a trouble-shooter. Pax Russica and Bellum Russicum interacted in the sense of an imperial policy. Alexander Rondeli summarized the impression created by the Russian approach as saying *'It seemed that history is being repeated in the post Soviet Russia. As in Bolshevik Russia in 1918, it begins to crush the former Soviet republics by means of direct military pressure and by means of economic blackmail and stirring up ethnic and political conflicts in several of the most disobedient of the newly independent states. Process that would lead to a military and economic power asymmetry in favour of Russia, to the creation of a certain*

¹³⁸ Stephen J. Blank, *The US: Washington's New Frontier in the Transcaspian*.

integrated formation based on Russia, and essentially to the reestablishment of the empire”¹³⁹.

Since mid-1992, the Caucasus became once again one of the key regions towards which Russian political and security elite re-defined its policy. The primary reason for the Russian engagement in the South Caucasus was sited to be the regional conflicts that had spill over potential. Russian experts stated that the new concept of foreign policy was modelled on the Monroe Doctrine in defining and describing the aims of and threats to Russia in the geopolitical space named the “*Near Abroad*”. The main threats to the peace and stability of Russia were believed to emanate from the local armed conflicts on Russia’s south periphery.

However, it is being recognized that Russia’s efforts to enhance its political position and economic penetration have been damaged by the military hardliners. Some influential political thinkers have started advocating a policy shift, urging greater cooperation instead of continued confrontation. President Putin stressed that Russia’s foreign policy would in the future continue to be built on purely pragmatic basis, in line with Russia’s capabilities and national interests.

C. Stability in South Caucasus, progressively recognized as a key issue of Turkish-Russian relations

It has to be acknowledged that neither Russia nor Turkey have any vital interest in South Caucasus. The outer edges of the Russian and Ottoman Empires in the past, the Caucasian front had usually been secondary in the Russo-Turkish wars, paneuropean in scope. Events of the Caucasian battlefields impacted considerably on the general conflict. However, the stakes of the battles had never been in the Caucasus. The century-old efforts of the Russian Empire to penetrate the Caucasus and the nearly two hundred years of Russian involvement in the region, together with its search for controlling the Black Sea were justified in an offensive strategy against Turkey. The Russian drive towards the warm seas began in the second half of the 16th century from the banks of the river Terek. Four centuries later the Russians had not moved further than the river Arax. The opening to the warm seas remained an unattainable goal. It is noteworthy that Turkish-Russian relations have been steadily developing throughout the 90’s on a parallel track: Moscow and Ankara have been extremely

¹³⁹ Alexander Rondeli, «Russia and Georgia : asymmetrical neighbours », Central Asia and South Caucasus Affairs, August 2003

cautious to prevent a spill over of a tension emanating from the Caucasus to the whole bilateral relations. In this context, the notion that it is Russia's manifest destiny to gain control over Istanbul can hardly be taken as an article of faith.

Today, Baku, Yerevan and Tbilisi seem faraway and the whole Caucasus insignificant when considered from Moscow, Ankara or St Petersburg, Istanbul. The South Caucasus isn't either the field of a new Great Game: the energetic resources don't have any vital importance for either of the two countries. In this regard, Central Asia matters far more for Russia; and Turkey's major partner is Russia.

However neither Russia nor Turkey are given the option to forget about the Caucasus. Turkey can't turn its back to its young South Caucasian neighbours, Russia cannot withdraw entirely and chose to get rid of the "*Caucasian problem*". Turkey and Russia have the uppermost stake in the stability of the South Caucasus. Ensuring the sustainable stability of the Caucasus region is the only relevant strategic concern for these two neighboring states. This objective is being progressively recognized as a key issue in Turkish-Russian bilateral relations.

The Joint Action Plan for Cooperation in Eurasia: from Bilateral Cooperation Towards Multidimensional Partnership

The Action Plan for Cooperation in Eurasia signed on November, 16th 2001, by foreign ministers of Russia and Turkey, Igor Ivanov and Ismail Cem, in New York, during the UN General Assembly, opened new room for cooperation. In the post September, 11th context, both countries expressed thereby their determination to carry their relation to a level of enhanced constructive partnership, extended to Eurasia and based on "*the shared belief that dialogue and cooperation in Eurasia will positively contribute to bring about peaceful, just and lasting political solutions to disputes in the region*".

It is noteworthy that the "*Eurasian identity*" of the two countries is being strongly emphasized. It is stressed that Turkey and Russia belong historically, culturally and geographically to both Europe and Asia. As two major countries in Eurasia, Russia and Turkey are committing themselves to ensure peace, stability and sustainable development of their region. It is said that this common understanding and willingness for joint action will bring new perspective and depth to the bilateral ties.

In accordance with the Eurasia Action Plan, a Russian-Turkish High-Level Joint Working Group (HLJWG) and a Caucasus Task Force, bringing together high official from

the Russian and Turkish ministries of foreign affairs were established. The HLJWG held its fifth regular meeting on December 23rd in Moscow under the chairmanship of Deputy Foreign Ministers Vladimir Chizhov of Russia and Ahmet Uzumcu of Turkey, in the wake of the signature in Ankara of the Joint Political Declaration on the Strengthening of Friendship.

Putin's visit to Ankara in January, 2005 created the impression that the Caucasus was no longer a source of discord for Russia and Turkey. President Putin was reported as saying *"We both agree that it is necessary to strive towards establishing friendly relations between neighbors. [Russia] will do everything possible to settle conflicts in the post-Soviet space, acting exclusively as a mediator and guarantor of future accords."*¹⁴⁰ Actually, the issues of the settlement of the Nagorno-Karabagh conflict and the opening of the Turkish-Armenian border were raised during the meeting between the Turkish and the Russian Presidents. The press reported that during the Turkish Prime Minister's unofficial visit to Moscow in January, 2005, Mr Erdogan and Mr Putin probed for an understanding on Armenia and the Nagorno-Karabakh conflict. The Karabagh question was among the topics discussed by Turkish Prime Minister Recep Tayyip Erdogan and Russian President Vladimir Putin on July, 18th 2005 meeting at the Russian Black Sea resort of Sochi. The joint press conference held after their talks, provided them the floor to highlight the attention paid to the Caucasus on a bilateral level. *"We gave a lot of attention to the problem of stabilising the entire Caucasus and Black Sea basin region. We are ready to work together with the other countries of the region to build up an atmosphere of trust and good-neighbourliness"*, said President Putin. The Turkish Prime Minister, Tayyip Erdogan emphasized that *" It was with satisfaction that I was once again able to confirm that the President and I fully agree on the need to intensify our efforts in the interests of regional peace, security, stability and ensuring global peace. We had the opportunity to discuss the issue of settling the Nagorny Karabakh problem. We were pleased to hear the President's position, which is that it is now time to take serious steps to settle this conflict. We are sure that more effective work by the OSCE's Minsk Group under Russian, U.S. and French co-chairmanship could make an important contribution to settling this problem"*.¹⁴¹

¹⁴⁰ Interfax, Russian news agency, January 11th, 2005

¹⁴¹ Press Statements and Answers to Questions following Russian-Turkish Talks, Bocharov Ruchei, Sochi, July 18, 2005 – Released by the Ministry of Foreign Affairs of the Russian Federation

It is equally noteworthy that Turkey doesn't consider anymore the Russian bases stationed along its Caucasian border as a potential threat. The presence of Russian troops isn't worrisome as long as they don't infringe on the national sovereignty of the host country. The Turkish Prime Minister, Mr Erdogan, asked to react to Russia's decision to transfer its military bases from Georgia to Armenia at a press conference in Baku, answered that *'it was up to Russia to decide whether its bases should be re-deployed'*¹⁴², he emphasized that the transfer of Russian military equipment from Georgia to Armenia was Russia's internal affair. He furthermore underscored that the issue *"does not concern Turkey in any way"*¹⁴³.

D. Cooperating in the South Caucasus without a shared border

On a political level both Russia and Turkey are openly stating their joint interest in ensuring stability in South Caucasus. However, developing a practical cooperation looks all the more challenging since the countries have lost their common land border. More worrisome, Russia and Turkey can't even meet each other in the Caucasus. The two neighbours are currently linked beneath the Black Sea, whereas the Caucasus has become a barrier between them.

The situation arisen from the frozen conflict of the South Caucasus is indeed less than optimal from a Turkish and Russian perspectives. Their communications links through the Caucasus are severed. A major part of the infrastructure connecting the Caucasus to Eastern Anatolia and Turkish Black Sea region - valuable legacy from the Russian empire - is not operational. Kars lost its traditional function of the key to Transcaucasus. Sochi cannot be the Russia's Southern gate and access to Vladikavkaz is dependent on the Upper Lars crossing at Kazbegi.

The development of a Turkish-Russian cooperation shouldn't be assimilated to a *"double imperialism"* imposed on the Republics of South Caucasus. Russia and Turkey both have an imperial legacy, one can argue that it might be difficult to either of the two countries to squeeze their identity into a smaller container, especially when dealing with the Caucasus. The fact that the costs associated with any attempted imperialistic move will outweigh the benefit is widely recognized. The Turkish-Russian cooperation in the 1920's at wartime,

¹⁴² June, 30th 2005, RIA Novosti, Russia

¹⁴³ "Erdogan: Transfer of Russian Arms in Armenia Russia's Internal Affair", Pan Armenian News, June 30th, 2005

sealed at the expense of the South Caucasus, isn't providing any pattern¹⁴⁴. It has the merit to reveal the degree of pragmatism reached in a highly critical context, which enabled to cooperate in a region where both countries had been fiercely fighting each other throughout history till 1917.

A Turkish-Russian cooperation can be practically thinkable as long as it is welcomed by the South Caucasian states. It can be developed only with their active participation. Intensification of cross-border cooperation on Turkish-Caucasian border and Russian-Georgian border will determine the scale and scope of a Turkish-Russian regional cooperation in the Caucasus. Georgia, Armenia and Nakhitchevan, across whose territories ran vital north-south and east-west roads and railways and which laid in the past in the way of intercontinental conquests, will fully developed their potential in an open and integrated space.

The Turkish-Russian rapprochement perceived from Armenia and Georgia

The Turkish-Russian rapprochement which gained a greater visibility at the end of 2004 and in 2005 hasn't remained unnoticed in Armenia and Georgia. Both Tbilisi and Yerevan have been closely following the new trends in the bilateral relations of their two big neighbours. The announcement that Turkish-Russian bilateral ties will gain a political dimension and the so called multi-faceted relations will cover regional issues of interest and concern for both countries generated a cautious optimism revealing unvoiced expectations.

Some representatives of the Armenian political elite expressed, referring to the historical precedent, their anxiety that a rapprochement between Turkey and Russia may have its negative impact on Armenia¹⁴⁵, by weakening its position in the settlement process of the Karabagh conflict. These fears remain quite marginal. The perception that Russia supports the normalization of Turkish-Armenian relations is being openly appreciated by the Armenian

¹⁴⁴ Close ties established between the Kemalist government and the Soviet regime was in a sense one of the factors which determined the fate of the Republics of South Caucasus. Evidence of this fact can be observed in a letter written to Lenin on April, 26th 1920 by Mustafa Kemal (Atatürk), the President of the Turkish Grand National Assembly. In his letter, Mustafa Kemal offered that they "attack Armenia provided that the Soviets attack Georgia, so that Azerbaijan should join the Bolshevik states". In Stéphane Yérasimos, Milliyetler ve Sınırlar (Nationalities and Borders), İletisim, Istanbul, 1994

¹⁴⁵ The political scientist and historian Ruben Safrastyan summarizes the historical precedent still haunting the minds of some Armenians: "In our memory the remembrance about how in 1920 the Kemalist Turkey and Bolshevik Russia, uniting their efforts against the common enemy – the Entente, came to a secret agreement and at the expense of Armenia put an end to the century-old confrontation, in particular, in the Caucasus. As a result, the Sovietized Armenia had to sign the unjust Kars treaty of 1921, which defined the distorted borders of the present Republic of Armenia." In "Russia and Turkey in the South Caucasus: Geostrategic dimension" published by Spectrum, www.spectrum.am

government. Russia, used to be presumably an obstacle for the normalization of the Turkish-Armenian relations, is being perceived as a potential intermediary.

The Armenian officials qualified as unprecedented the inclusion of the issue of Turkish-Armenian relations on the official agenda of meeting held during President Putin's visit to Ankara in January, 2005. President Putin's promise to act as a mediator to resolve disputes between Turkey and Armenia raised the hope of a Russia-facilitated breakthrough. It is believed that the improvement of Russian-Turkish ties could benefit Armenia since Moscow will place additional pressure on Ankara to lift a "trade embargo" and normalize relations with Yerevan¹⁴⁶. It is being stressed that the normalization of the Armenian-Turkish relations is also in the Russian interests from both - the geopolitical and purely economic points of view.

The positive trend in Turkish-Russian relations brings an interesting opportunity to deepen the analysis of the Russian-Georgian relations. The Turkish case seems at first sight a real challenge for Georgian foreign policy. Turkey has been successful in finding a common ground with Russia, its traditional foe, which hasn't strained its relations with its traditional Euro-Atlantic allies or make forget its long-lived EU bid. Furthermore, the Turkish case brings the evidence that it is possible to engage in a rationale dialogue with Russia and develop close economic ties and reach a political understanding even on some mutually sensitive issues. Georgian officials and opinion-makers often stress the fact that Turkey, in comparison to Georgia, is in a very different position in its relation with Russia. Turkey can speak on an equal footing, and will be considered as an acceptable counterpart. Turkey doesn't have to endure Russian arrogance and strive to protect its national sovereignty from unwarranted interferences.

The perspective of a Turkish-Russian cooperation in South Caucasus, in other words the inclusion of South Caucasian issues in the Turkish-Russian bilateral agenda, is very much welcomed by Georgia. However, the belief that Turkey would never take the risk to strain its bilateral relations with Russia because of Georgia is widespread. The recent visit of the Turkish Ambassador in Tbilisi to Sukhumi should probably alleviate to a certain extent these fears. Amb. Ertan Tezgör, said during his meeting with Sergey Bagapsh, on May, 31st, 2005

¹⁴⁶ Haroutiun Khachatryan, "The Russian-Turkish rapprochement could benefit Armenia" January, 2nd 2005 Eurasia Insight

that Turkey could play a more active role on the Abkhaz conflict resolution process¹⁴⁷. Turkey, directly dealing with Russia in the Caucasus, in an intermediation and containment position, is to be perceived as an valuable support and contribution for the normalization of Russo-Georgian relations.

¹⁴⁷ Civil Georgia, « EU, Turkish Envoys Visit Abkhazia », June, 1st 2005

PART V

Bridging Turkey to Russia through the Caucasus

Untying the Georgian-Russian and Armenian-Turkish Knots: Building Trust through Business

1. Developing Georgian-Russian Economic Relations

The economic dimension has proved to be very important for the improvement of Russian-Georgian relations. The improvement of the bilateral relations was recognized as a priority by the post revolutionary Georgian government. Discussions in Russia on the need to develop a pragmatic business oriented approach echoed Georgia's engaging policy. The late Prime Minister Zurab Zhvania became the main pioneer of the policy aiming at replacing continued confrontation with greater cooperation. Some policy-makers in Moscow started openly advocating for the need to recalibrate Russia's stance towards Tbilisi, underlying that the confrontational stance towards Georgia has effectively masked the absence of a well-considered policy. Sergei Karaganov, chairman of the Council on Foreign and Defense Policy stressed that Russia has been ignoring not only Georgia but the South Caucasus region in general. A genuinely friendly policy towards Russia can easily be developed on the base of the geographical proximity and historic ties. Furthermore it had been advocated that the strengthening of integrationist ties in the Eurasian space would foster the re-establishment of the pan-Georgian unity¹⁴⁸.

The business communities have become the major actors in the Russian-Georgian rapprochement strategy. This strategy has been trying to build on the tight economic relations existing between Georgia and Russia.

A. The Georgian-Russian Business Forum, May, 2005

The Georgian-Russian Business Forum organized on May, 28th-29th, 2005 was presented as an unprecedented initiative testifying of the new relationship that had been growing between Moscow and Tbilisi since the Rose Revolution. The forum, inaugurated by

¹⁴⁸ Igor Torbakov, "Russian Policy Makers struggle to respond to political changes in Georgia", Eurasia Daily Monitor, August, 1st, 2004

President Saakashvili, was attended by the Russian Economic Development and Trade Minister German Gref, accompanied by 100 Russian businessmen. Participants included top managers of Russia's Unified Energy Systems electricity monopoly and Aeroflot national air carrier, as well as representatives of Lukoil, TransGazOil, Rosnefteeksport and other energy companies.

Officials of both countries strongly put the emphasize on the political significance of the event. Minister Gref presented the forum as a symbol of the new relations between Georgia and Russia. According to Vladimir Chkhikvishvili, Russia's ambassador to Georgia, this historical event marked a milestone in the history of bilateral ties¹⁴⁹.

This context provided a good opportunity for significant political moves. A few days before the forum, on May, 25th, a draft economic cooperation agreement was announced in Moscow by Minister Zhvania and Russian Prime Minister Mikhail Fradkov. Under the terms of the agreement, Russia will increase its electricity supplies to Georgia, invest in the country's transport and oil sectors and help to rebuild its crumbling power facilities. Georgian Economy Minister, Irakli Rekhviashvili and visiting Russian Minister for Economic Development and Trade German Gref signed an agreement on May 28th which gives Russia the formal go-ahead from Georgia in the country's accession to the World Trade Organization (WTO)¹⁵⁰. This agreement followed the one secured a few weeks earlier by Mr Zhvania over the rescheduling of Georgia's debt toward Russia which paved the way for the resumption of talks between his government and the International Monetary Fund.

The appointment of Kakha Bendukidze, one of Russia's leading industrialists, as minister of economics in the government of Georgia was made on the sidelines of the forum. Though educated in Tbilisi, Bendukidze has lived and worked in Russia since 1990. He built his business reputation by heading Russia's largest manufacturing company, United Heavy Machinery. Announcing his acceptance of the post in Moscow on June 1st, 2004, Bendukidze resigned from the OMZ board, and placed his personal OMZ stake in trust management for

¹⁴⁹ Civil Georgia, "Business Forum Hopes to Improve Russian-Georgian Economic Ties", May, 31st 2004

¹⁵⁰ In February 2004, the Georgian Parliament suspended its December, 2002 resolution, which required the Georgian government to veto Russia's WTO accession. The 2002 resolution was passed by the Georgian Parliament against the backdrop of extremely tense relations between Tbilisi and Moscow.

three years, as well as from the presidium of the Union of Russian Industrialists and Entrepreneurs.

Minister Zhvania announced on May 28 that advisers from the Russian Ministry of Economic Development and Trade would help Georgia rewrite its tax code, aiming to stimulate foreign investment.

The aggressive privatization program

Opening up Georgia's economy to competition and investment became the priority of the new Minister of Economy, Kakha Bendukidze¹⁵¹. The Georgian government launched a massive privatization program, called the "*aggressive privatization policy*". A first list of 372 state-owned properties, ranging from aviation manufacturers to warehouses to the national mint, was soon released. The total amount of USD 200 million was initially expected from the privatization process to be mainly allocated to the renovation of infrastructure left in a very poor condition¹⁵². After long controversies, assets defined as strategic were excluded from the program¹⁵³.

B. Perceptions of Russian investments

There is traditionally a great amount of suspicion against Russian capital. The belief that Russia will always pursue political goals through economics is deeply rooted. It is believed that private Russian businesses operating in Georgia, have had a blessing from the Russian government eager to use them as a tool to exert its pressure on Georgia. The fact that Russian companies are mainly, sometimes exclusively involved in strategic sector strengthen these fears and provides a favorable ground for anti-Russian rhetorics.

¹⁵¹ "When you forbid private ownership but you have no ability to take care of this property, it is destroyed. Never own things you don't want to operate. Never own things you have no capacity to operate. When you do, you are destroying these items, you are destroying the capacity, you are destroying the ability to produce wealth", Minister Bendukidze in a interview in the review of AMCHAM

¹⁵² Interview with Mr Ilya Gotsiridze, Head of Privatizations, Ministry of Economic Development, March, 11th 2005, Tbilisi

¹⁵³ According to the Law of Georgia on State Property Privatization, the following state property is not liable to privatization: water resources, ports and landing piers of national importance, hydraulic engineering constructions, railways, gas pipelines, highways, aircraft flight management systems and landing strips, state postal communications, TV-radio broadcasting, trunk-line and international telephone communications

Several statements aiming at diffusing this mistrust towards the Russian money were made during the Georgian-Russian business forum. Business cooperation was thus presented as a common ground where win-win deals were negotiated, and upon which a political understanding could be built. The business communities were therefore the main actors of the Georgian-Russian rapprochement. Businessmen reminded of the very basic principle that all private companies pursue benefits and stressed the irrelevancy of the assumption that money coming in from Russia should necessary be politically motivated. A further argument is that it might be politically better if Russia had an economic stake in improving the situation in Georgia : it can be argued that the boosting of the Russian capital in Georgia can facilitate the settlement of bilateral problems. The President of the Union of Industrialists and Entrepreneurs in Russia, Arkady Volsky, was quoted as saying *“fears should not prevail concerning economic relations between the two countries. Political sovereignty is okay, but economic sovereignty is absurd”* and President Saakashvili that *“investments have no nationality”*¹⁵⁴

C. The Georgian-Russian Business Council

The Georgian-Russian Business Council was established in September, 2003 in Tbilisi. It has today 30 members, all Georgian companies interested in promoting business links with Russia. The Council has 8 banks, including the largest banks in Georgia, among its members. The 8 founding member are Borjomi Mineral Waters, Martin Bauer, Samgori group, Ernst & Young, United Georgia Bank, Georgian Bank, TBC Bank, JVS wine production. The current executive board members are Mamuka Khazaradze, from the TBC group / Borjomi, and David Dumbadze from Martin Bauer.

The counterpart organization is the Moscow based Russian-Georgian Business Council gathering 26 Russian companies. Almost all of them are large companies predominantly from the financial sector (banks and investment companies). Are among the members: Renaissance Capital, Pramishleni investors, Rostneft export. Another association was founded in parallel by Georgian businessmen based in Moscow.

¹⁵⁴ Civil Georgia, “Business Forum Hopes to Improve Russian-Georgian Economic Ties”, May, 31st 2004

The Georgian-Russian business council is promoting the development of business links between Georgia and Russia. The secretary general¹⁵⁵ underscores that the association is seeking business relations “on a equal footing”. Politics are a major impediment, therefore the council has the duty to contribute to the “pacification” of the Georgian-Russian relations by renewing contacts and promoting exchange between two populations used to know each other very well. The business forum was jointly organized by the Georgian government and the business council. The forum is described as an important event which contributed to restore trust, which had even some very practical results: agreements were signed and commercial transactions were initiated. The momentum stopped and none of the transactions yielded to any results because of the renewal of hostilities in South Ossetia during summer 2004. The secretary general regrets that politics impact that badly on Russian-Georgian business. Especially Russian companies are said to be very much dependent on Russian politics as far as Georgia is concerned.

The council has organized in May 2005 an economic forum in Moscow with the participation of 80 Georgian companies. An exhibition of Georgian exports products was prepared. A trip for Russian businessmen to Georgian wine countries is on the agenda of the council. The council is also involved in cultural projects. Let’s quote a Russian film festival to be organized in Tbilisi to remind of the shared culture.

Besides the development of the bilateral trade volume, the business council is seeking to attract Russian investment, especially in the non strategic sector, as agriculture, food processing, tourism and wood industry. Russian capital is more available and flexible as far as foreign direct investments are concerned. The old work experience can contribute to the development of new joint projects. Furthermore, the deepening of economic ties between Russia and Georgia is likely to ensure the synchronization of the process of economic reforms between the two countries.

Georgian-Russian trade relations

Russia is Georgia’s largest trade partner. The bilateral trade turnover between Georgia and Russia has increased by 90% since 2003 and has reached an annual turnover of USD 362 million. Russia is a vital export market for Georgian businesses, the major part of the private sector is entirely dependent on trade with the Northern neighbor. The Georgian products can

¹⁵⁵ Interview with the secretary general

be competitive on the Russian market, and some products and brands are already well known. According to the Georgian-Russian business council, the Russian export market which has an significant growth potential, “*will save Georgia*”.

However, logistics between Russia and Georgia have become a major problem. The only railway connection is running through Abkhazia and has been severed for more than a decade. The route running through the Roki Tunnel in South Ossetia, bypasses Georgian customs and security checkpoints. The only legal border crossing is the Upper Lars border post in Kazbegi: freight between Russia and Georgia has to be moved by truck along the Old Georgian Military Highway, which is a rugged narrow road often closed by snow or avalanches. The transit route via Azerbaijan is much longer and costly. The establishment of a ferry connection across the Black Sea between the Georgian port Poti and the Russian port, Kafkaz in January, has been hailed as a major step forward likely to boost trade.

The economic impact of the closure of the Georgian-Russian border crossing at Kazbegi reveals the vital importance of the access to Russia for Georgian businesses, furthermore the regional significance of North-South connection through Georgia. The closure of the Lars checkpoint on the Russian-Georgian border has inflicted serious damage to the Georgian economy. The economic losses from the closure are estimated at roughly 4 million laris (USD 2.2 million) and have led to a widening disruption in regional trade as the border crossing post is an important transshipment point facilitating trade and cargo shipments between Russia and Armenia¹⁵⁶. The border-closure issue was also raised during the opening meeting of the Georgian-Armenian business association in Tbilisi on September, 30th, 2004.

Russian investments in Georgia

Russia is the first investor in Georgia and has been actively taking part to the privatization process. Russian investments are concentrated in infrastructures. Currently, twelve Russian companies are represented in Georgia; among them Telasi, the distributor of electricity,

¹⁵⁶ Statement by the deputy chairwoman of the Georgian parliamentary Foreign Relations Committee, Salome Samadashvili. “Georgia decries economic impact of closed border with Russia”, September, 30th, 2004, Prime News

Rustavi chemical company, privatized under Chevardnadze's presidency, Lukoil and some wine factories.

In January 2005, the Georgian government announced that the Russian company EvrAzHolding took over the manganese mining factory/Vartsikhe hydro power plant in a privatization package worth USD 132 million. Evraz Holding has taken ownership of 70.8% of the shares in the Zestaponi ferrous alloy plant, Chiatura manganese mines, and the Vartsikhe hydroelectric power plant, all located in western Georgia. The Georgian government and the company signed a memorandum on the privatization deal on January 24th 2005. The company showed interest in two other Georgian strategic units, namely coal mines in Tkibuli (west Georgia) and the Rustavi metallurgy plant.

Also in January, the Russian state-owned trade bank Vneshtorgbank purchased 51% of shares of the Georgian United Bank, one of three leading Georgian banks. Vneshtorgbank recently acquired a 70% stake in Armenia's Savings Bank, the second-largest bank in that country. Both moves form part of Vneshtorgbank's recently announced strategy to develop a CIS-wide network of banking services, with the aim to become the main clearing bank in the CIS.

Aeroflot has begun talks on acquiring 100% of shares in Georgia's national carrier, the privately owned Air Zena. The latter operates flights to Paris, Amsterdam, Frankfurt, Vienna, Athens, Tel Aviv, Kyiv and Moscow. If consummated, this deal would represent Aeroflot's first outright acquisition of a national carrier in a CIS country.

United Energy Systems intends to expand its holdings in Georgia's electricity sector, after having acquired majority stakes in the Telasi power-distribution network. In December 2003, UES acquired a 75% share in Telasi, the formerly U.S.-owned electricity-distribution company that services Tbilisi. It also purchased majority stakes in the Mtkvari power station and other Georgian energy facilities. UES has also been involved in the project to rehabilitate the Enguri hydro power plant, which lies at the administrative border between Abkhazia and the rest of Georgia. The Enguri hydroelectric station is the largest in the country and produces 700 megawatt of electricity per day. Breakaway Abkhazia also receives its electricity from the Enguri station.

D. Russia's involvement in the energy sector : facts and perceptions

Georgia is entirely dependent on Russia for energy supplies. Russia is currently the only supplier of natural gas to Georgia. The situation is very bitterly felt. The sense of vulnerability is widespread since the belief that Russia has been using its energy companies to achieve its foreign policy goals is widespread and deeply rooted. This dependency has nothing exceptional since Russia is the EU's major gas supplier, and Turkey will be very soon dependent on Russian supplies up to 70%. Georgian experts are stressing that there is a major difference between Turkey's and Georgia's energy relations with Russia: Turkey is indeed paying for all the gas supplies and is being charged a relatively high price.

How realistic is the fear that Russia "shuts down the valves" for some political motivations? There had been a few precedent interruptions of the gas flow apparently for objective reason. Having felt very concretely their degree of dependency on the northern neighbor perceived as unfriendly entailed a sense of insecurity. ITERA had suspended gas supply to Georgia in 2002 due to unpaid debts, including the winter seasons when the gas consumption reaches its peak. The gas supply to Georgia stopped on January 2003 as the reserve pipeline was damaged on the territory of Russia's North Ossetian Republic. Earlier, the main export pipeline was also damaged by the blast. As a result of both incidents, natural gas supply to South Caucasus was completely cut off, leading to the heating and electricity shortages, as both in Georgia and Armenia gas-fueled energy stations provide the major share of the produced electricity¹⁵⁷.

However, one has to acknowledge that gas and electricity supplies have been improving since the Russian energy companies have consolidated their position on the Georgian market. Furthermore, Gazprom supplies gas twice cheaper compared to world prices. South Caucasian countries pay approximately USD 60 and world prices are at USD 125. The company has recently announced its intention to end its subsidiary pricing policy for CIS countries and apply normal marketing mechanisms.

As a matter of fact, Georgia will always need Russian supplies, therefore a tight cooperation with Russian energy companies seems unavoidable. Russia has indeed proved to be a reliable partner: in times of energy crisis, had accepted to supply additional power. The

¹⁵⁷ Tea Gularidze, "Hopes Emerge after Blasts in Russia Leave Georgia Cold and in the Dark", Civil Georgia, January, 24th 2003

Russian companies are the only companies interested in investing for the renovation of the Georgian ruined infrastructure.

Electricity

The Georgian electricity sector has faced significant challenges since Georgia gained independence in 1991. The absence of adequate funding, financial limitations, and primarily poor collection rates, have made energy imports increasingly difficult. As a result, the Georgian electricity sector has had to rely primarily on its own hydro power (79%), complemented by limited thermal capacity (typically up to 120 GWh per month is imported from Russia in the winter. Due to low collection rates over the past ten years, and the lack of funding going into the system, the infrastructure has suffered considerably. Georgia's deficit in electricity totals is estimated at 200-300 megawatts. Georgia currently imports 350-400 megawatts from Russia and approximately 200 megawatts from Armenia. The increase of import from Armenia seems very difficult because of the limited capacity of the transmission lines. Today UES owns 75% of the Tbilisi power distribution grid. In total, UES controls 20% of energy generation and 35% of power distribution of Georgia.

AES purchased the 75% of the Telasi shares for USD 25 million in 1999. According to the concluded agreement, the company planned to invest 10 million USD annually. However investments made during four years of operation reach USD 275 million in total. 150 million were spent for modernizing the electricity network in the Georgian capital. 100 million dollars were paid for the electricity import. During these years the company had to face many obstacles and criticism for frequent increase of the electricity tariff, which was justified by the AES by the need to cover excess investment. The major blow for the company was the murder of its financial manager Nika Lominadze. AES left Georgia in September 2003, 57 months later and over USD 200 million poorer. The Russian company RAO UES purchased the U.S. company's 75 percent ownership of the Georgian company Telasi, handing over the keys to the capital's lights on September 1, 2003. The purchase of AES's assets includes not only a controlling share in the distribution company but full ownership of AES Mktvari (Gardebani power generating units 9 and 10) as well as the right to operate hydro stations Khrami 1 and 2. In the meantime, however, Gardebani unit 10 and Khrami 2 are inoperable. The former blew up in December 2001 and Khrami 2 was shut down by AES-Mktvari earlier this year, deemed unsafe to operate.

As a result of the deal the Russian power giant, which already owned 50% of the power lines in Georgia, acquired 75% of AES Telasi, power plants Khrami-1, Khrami-2 and two power blocks of AES Mtkvari. Thus the Russian state-owned UES became the monopolist in the Georgian energy system causing concern of the local political circles.

The AES Silk Road manager John Huffaker was reported as saying “*This is a commercial decision of a commercial company,*” and adding the RAO Nordic, a subsidiary company of the UES was the only company to have expressed willingness to purchase to AES assets in Georgia¹⁵⁸. Anatoly Chubais, CEO of RAO-UES tried to dismiss Georgian political circles’ fears that the entry of the Russian energy giant, would lead to mounting political pressure on Georgia by Russia. He said “UES’s entry in Georgia is purely economically-motivated. This was not a political or Kremlin-guided deal. It was just a commercial agreement of the two companies¹⁵⁹ .

RAO UES stressed the fact that it knew what it was buying into since the Georgian system was a part of the Soviet energy system. The company has accumulated experience in management reform since Russia had been through the same process. In addition, the fact that the company, contrary to its predecessor, wouldn’t have to purchase electricity from a third country, was an additional asset.

The rehabilitation of the energy sector has been set as a high ranking priority on the governmental agenda. That Georgia produce, by the end of next year, 1,800 megawatts of electricity has been fixed as a target. Although supplies have improved since early 2000, persistent blackouts across Georgia in winter 2005, have sparked protests. The pressing need to supply electricity to people has been felt even more acutely.

Kakha Bendukidze, after his new appointment as the State Minister for Economic Reform Issues, announced in March 2005 that the government was planning to unite most of the state-owned energy facilities into one company in an attempt to privatize it. The total revenue expected from the deal, approximately USD 108,6 million, would be allocated for energy sector rehabilitation projects. The list includes five other hydro power stations, the Rioni, Shaori, Lajanuri, Gumati and Dzevruli, which are all located in western Georgia and represent a total capacity of about 250 megawatts. The United Distribution Company (UDC),

¹⁵⁸ Tea Gularidze, Civil Georgia, August, 2nd, 2003

¹⁵⁹ Civil Georgia, “Government Tries in vain to Allay Fears Over UES Entry”, August, 7th, 2003

currently managed by the U.S. company PA Consulting, which distributes electricity in the regions throughout Georgia, was also included in the privatization packet¹⁶⁰. The only exception being the high-power transmission lines, Enguri hydro power plant, which is located at the administrative border with Abkhazia, Vardini hydro power plant. In the aftermaths, the Georgian Prime Minister Zurab Nogaideli and Andrei Rappoport, Deputy Chief Executive of Russia's Unified Energy System (UES), announced that the Georgian government and UES will sign a new, five-year cooperation agreement that allows for the potential transfer of Georgia's power distribution grids to UES management. The statement came after the two men concluded negotiations on a wide range of issues, including the establishment of a new market model in the Georgian energy sector and additional electricity imports from Russia while the Enguri hydropower plant undergoes renovation¹⁶¹.

Gas

ITERA, which was founded by the Russian Gazprom company in the United States, is an exclusive supplier of the natural gas to Georgia for the past few years. ITERA is selling the gas to Georgia through the Sakgaz company, registered in Tbilisi. After launching cooperation with ITERA, Georgia's debt to the company exceeded 70 million Lari (USD 32 million). A protocol signed in August 2002 gave ITERA 51% of the shares of Tbilgazi, the gas distributor in Tbilisi and Azoti Chemical Factory in Rustavi as a debt repayment. As a result, ITERA started controlling all gas distribution companies in Georgia, with the exception of the Adjarian Autonomous Republic.

ITERA had suspended gas supply to Georgia due to unpaid debts, including the winter seasons when the gas consumption reaches its peak. It was argued that the Russian company reached the agreement with the Georgian government, using Russia's military pressure, as the negotiations with ITERA coincided with extreme deterioration of the Georgian-Russian relations and bombing of the Georgian territory.

On July, 1st, 2003 the Georgian government and Gazprom signed a memorandum on strategic cooperation for 25 years. The agreement foresees the supply of natural gas to Georgian customers, rehabilitation of gas pipelines, including two trunk-line gas pipelines,

¹⁶⁰ UDC was not scheduled for privatization for another two years. The American firm PA Consulting, a contractor of the U.S. Agency for International Development that has managed UDC since 2003.

¹⁶¹ The temporary closure of the Enguri power plant in March 2005 created an additional need for 600 megawatts of power supply.

and use of the Georgian infrastructure for transit purposes, for transporting gas to Armenia and to Turkey, via the Adjara Autonomous Republic. According to Russian sources, "rehabilitation" means virtually full overhaul of outdated pipes and equipment, with only Russia-Armenia portion costing around 250 million USD. At the same time, the capacity of the pipeline would increase from current 2.5 billion cubic meters per year to 16 billion.

News about the government's decision to privatize Georgia's gas pipeline system broke after President Saakashvili told the Italian newspaper La Stampa on February 20th, 2005 that Georgia is in fact negotiating with Gazprom over this issue. The president remarked "*The gas is Russian after all*"¹⁶². This announcement triggered fierce criticism from the opposition, which questions the political rationale behind these negotiations. The gas pipeline system is classified on the list of "*strategically important*" facilities, which cannot be sold according the Law on Privatization, therefore an amendment has appeared as necessary.

The Georgian government has shown eagerness to foster competition, and avoid monopolistic schemes. The revelation of the ongoing talks between Georgian officials and Gazprom might have been intended to raise the stakes in Georgia's privatization plans. Government officials emphasized that Gazprom was not the only company which could buy Georgia's gas pipeline system. The Shah Deniz consortium was at the forefront since the issue of the impact of the purchase of Georgia's gas pipeline system by Gazprom, on the Baku-Tbilisi-Erzurum gas pipeline was raised. However BP openly declared not to have any intention of taking part in the privatization process.

Actually, the aging pipelines system face real risk of a total collapse. Securing their functioning would require significant investments. State Minister for Economic Reforms Kakha Bendukidze professed to "*not understand why we should be threatened if those gas pipelines, through which Georgia receives gas from Russia, are sold to Russia, which then takes care of the pipeline system.*"¹⁶³ Any sale of pipelines to Gazprom would include a clause to guarantee supplies to Georgia.

¹⁶² Imedi Radio, *Civil Georgia*, February 22nd, 2005

¹⁶³ Press conference, February, 22nd, 2005

The price of the Russian gas

Gazprom is currently in a process of renewing the formerly pursued policy of gradual transition to marketing, and has been considering to end subsidizing the former Soviet Republics through gas supplies at low prices, in comparison to the European level. The management of the company has started speaking in the open about the intention to bring the selling price of gas to the European level very soon not only for Baltic republics but also for the CIS countries including Ukraine being the main transit territory in the path of Gazprom's gas to Europe. The company is indeed planning to transit to marketing mechanisms in mutual payments excluding non-transparent bartering and offsetting schemes and to ensure higher level of prices in gas supplies to the CIS and Baltic countries.

Transcaucasia is supplied by Gazexport, from Central Asian gas purchased by Gazprom. To Azerbaijan Gazexport will supply 4.5 billion cubic meters of gas (5.5 billion cubic meters if there is the technical possibility for this), to Armenia 1.7 billion cubic meters and to Georgia 1.2 billion cubic meters. Meanwhile, export of the same quantity of gas to non-CIS countries would earn at least \$9 billion for Gazprom. Gas prices for the Transcaucasian republics will grow at least 20% too, due to increase of prices of Central Asian gas for Gazexport. Now Gazexport supplies mostly Kazakh gas to Georgia, Armenia and Azerbaijan. Its prices will grow inevitably after increase of real prices of Turkmen gas.

CIS and Baltic countries pay for gas at different rates although the basic rate for this territory is set by Gazprom at the uniform level of \$80 per 1,000 cubic meters. The price is the cheapest for Belarus (\$46.68), Ukraine pays a little more (\$50) Belarus and Ukraine are transit countries for Gazprom's export, which determines the lowest prices. and prices are the highest for the Baltic countries (from \$85 to \$95). Georgia, Armenia and Azerbaijan buy Central Asian gas from Gazexport at \$60-65 and only Moldova pays in accordance with the basic rate. Building of new gas relations with Ukraine is only beginning but has already acquired a scandalous nature. Despite that now the most profitable business of Gazprom in the form of gas sales in Europe depends on Ukraine by 80%, management of the Russian gas monopoly launched a large-scale campaign for revision of the existing system of gas supplies. At present Gazprom sells practically no gas to Ukraine but pays with gas for the transit services provided by the state-run Ukrainian company Naftogaz Ukrainy (26-29 billion cubic meters annually in the last few years) at the offsetting price of \$50 per 1,000 cubic meters. This scheme is confirmed by the ten-year intergovernmental agreement of 2002. However, certain parameters (the volumes of barter, as well as offsetting prices of gas and transportation prices) are set annually.

Source : « Gas strategy of Russia towards the former Soviet Republics changes », Agency WPS, the Russian Oil and Gas Report, July, 11th , 2005

2. Developing Armenian-Turkish Economic Relations

A. The existing trade relations

Trade between Armenia and Turkey does exist despite the border's closure, amounting to USD 70-150 million each year. Trade is primarily carried out via Georgia or through air carriers. This leads to an increase in transportation costs. The air corridor, opened in 1996 connects Istanbul and Yerevan.

According to Armenia's Ministry of Foreign Affairs and Ministry of Industry and Commerce, there are some 20 Turkish-Armenian joint-ventures, although companies with Turkish capital are represented by nationals of a third country. According to the US Embassy in Yerevan, Turkey is Armenia's seventh largest commercial partner although export destinations are usually registered as Georgia and Russia. Similarly, Turkey is not mentioned as the country of origin: exports tend to originate from third-party firms based in Switzerland. Turkey mainly exports foodstuff, textile and imports of copper.

According to data provided by Istanbul International Atatürk Airport and diffused by Turkish Anatolian agency, 11 thousand Armenian citizens visited Turkey in 2003¹⁶⁴. The total number of Armenian citizens having visited Turkey last year may exceed 11 thousand as many tourists and small businessmen reach Turkey via Georgia's territory.

The market in the popular district of 'Bangladesh', a few kilometres from central Yerevan, is known as Malatya Pazari.¹⁶⁵ Turkish wholesalers in import-export sector and the shuttle trade feed the market with goods. Even on a quick visit, it is obvious that a large proportion of its agricultural, cleaning, textiles and food products are Turkish brands. Indeed, asking if a product comes from Turkey is a sure way of starting a conversation and most traders understand Turkish (some say they speak it at home, while others picked it up on visits to Turkey). Some wholesalers go directly to Turkey to purchase merchandise but others prefer to buy from a Turkish wholesaler. Some try to pass off Turkish-made products as Iranian and Russian, either because Turkish goods are considered inferior or because previous boycotts have taught them to be prudent.

¹⁶⁴ Mediamax, "11 thousand Armenian citizens visited Turkey last year" February, 3rd, 2004

¹⁶⁵ Market of Malatya'. Malatya is a Turkish city in Anatolia

Most Turkish wholesalers in Malatya market are in the transport and logistics businesses and come from the Black Sea, particularly Trabzon. They mainly import raw materials, fruit, vegetables and consumer goods. Turkish merchants broadly divide into two categories. A minority came to Armenia in the first years of its independence and now have settled, but the majority spend only a few months there. That the majority come from the the Black Sea region is not accidental. Interviewees said they were attracted by travel, that it was possible to find ‘Karadenizli’¹⁶⁶ throughout Turkey and that Trabzon traders were in nearly ‘every country of the world’. Many had been involved in Russia, Georgia and Azerbaijan before entering the Armenian market, which they unanimously preferred because ‘there are not many Turks’.¹⁶⁷

They are prepared to supply any product, but readily confess that a large part of exports to Armenia¹⁶⁸ are of low-end quality (they actually claim to suffer from this). Though they define themselves as businessmen, they admit to having made irrational choices by staying in Armenia during the conflict and continuing to operate in a low-profit and high-risk market. They also admit to having a taste for adventure.¹⁶⁹

Interviews with Turkish traders and businessmen give an overview of the difficulties of the Armenian market:

- a. It is increasingly difficult to penetrate the Armenian market and remain there. The fact that the market has become more structured complicates access for businessmen with limited capital while the creation of new distribution networks has made it more difficult to profit from importing.
- b. Turkish businessmen often complain about the behaviour of their Armenian partners who, they say, look for short-term profit and have little knowledge of marketing. Some insist on their lack of creditworthiness. Their main objective, they allege, is to drive Turkish traders out of Armenia and confiscate their merchandise.
- c. The cancellation of orders is a major risk, particularly with regard to perishable goods or products with high transport costs.
- d. The determination of prices is erratic. Sellers tend to increase prices if the buyer is Turk, above all when he learns the merchandise is due to be exported.

¹⁶⁶ Person who comes from the Black Sea region. ‘Karadeniz’ means the Black Sea in Turkish

¹⁶⁷ I was told that there were no Turks in Armenia and I never hesitated to go there,’ said one of the merchants interviewed

¹⁶⁸ ‘There was a tendency, at one time, to deliver very poor merchandise, products that were impossible to sell in the Turkish market.’

¹⁶⁹ ‘The more we lose, the more we continue,’ said one merchant. ‘It is impossible to give up!’

- e. Settlement of transactions involves enormous problems and so is usually made in cash.
- f. Boycotts against Turkish products, organised during a period of political tension, continue to worry Turkish merchants.

Bus companies shuttling between Yerevan and Istanbul are an important source of information. Two Turkish firms, Aybaki and Mahmudoglu, dominate the land connection between the two countries, but two other companies, AST and Buse, also run services. A wholly-owned Armenian company could not compete in the sector because vehicles registered in Armenia are not permitted to enter Turkey. Particular attention is paid to Aybaki in this study since it was the company chosen to make the journey.

Women between 35-40 years old comprise more than 80% of passengers and it is possible to categorise them according to the purpose of their journeys. Women in the shuttle trade constitute more than half of all passenger journeys. They stay in Istanbul no longer than three days since their objective is to shop as quickly as possible and to spend as little as possible. Others use Turkey to transit to their ultimate destination, the EU. The oldest are often travelling to work illegally for Armenian families in Istanbul. A fourth group indicates that they go to 'work in the hotels': prostitution is certainly one activity field. Bus companies estimate that passengers on a single bus will spend around \$100,000 on shopping during a single trip. In the period up till January 2001, the total value of the shuttle trade was estimated at around \$2bn per year. The four firms operating in the market each make two trips a week. Buses are equipped with an empty trailer that weighs nearly 15 tonnes on its return journey.¹⁷⁰

B. Are the businessmen mediators between the two countries?

Disappointed with the slow progress to promote political reconciliation, TABDC was co-founded in both Turkey and Armenia in 1997 to foster the creation of new trade links between the business people of Armenia, Anatolia and the Armenian Diaspora by acting as an intermediary vehicle to develop new avenues of cooperation. TABDC has been advocated for the opening of the Turkish-Armenian border and the normalization of bilateral relations as a prelude for the settlement of political disputes. TABDC is indeed a good example of the existence of an amount of pragmatism in the region. opening of the border between Turkey

¹⁷⁰ The companies also transport merchandise

and Armenia, which would break the deadlock and facilitate the settlement of political conflicts in the region.

The initiative was supported not only by BSEC, but also by the businessman Telman Ter Petrossian, brother of the Armenian president. However, in the absence of diplomatic relations, the establishment in Turkey of an official Turkish-Armenian business council was impossible. The business councils are official structures. Yet, the perspective of a future normalization of political relations convinced of the necessity of establishing a mediator body between the two countries. The Turkish-Armenian Business Development Council (TABDC) remained an unofficial structure as it couldn't be integrated into the *Foreign Economic Relations Board*¹, the Turkish umbrella organization gathering business councils.

TABDC is a joint Turkish-Armenian organization. In February 2001, the two Armenian and Turkish branches convened under the same roof, and thereby the importance of co-presidency has been emphasized. The joint Turkish-Armenian identity allows the council to stay above traditional political cleavages. The president of the Armenian branch of the Council has been elected to the presidency of the Association of Armenian Businessmen and Industrialists. The Council tries to include the Armenian Diaspora in its actions as much as possible. The regional economic development which will result from the intensification of exchanges between Turkey and Armenia and from the implementation of joint projects will take more support with the participation of the Armenian Diaspora. The biggest success of the Council is to have elaborated a common wording acceptable to Turkey, Armenia and the Armenian Diaspora. The supports of Turkey, Armenia and the Armenian Diaspora contribute to define the perimeter of the Council actions. *'talking about trade, but not about politics'* easily allows to send consensual messages.

TABDC has been striving to build small bridges between Turkey and Armenia to contribute on a daily basis to the creation of an atmosphere of renewed trust that will help to enhance the public's faith in the effectiveness of a collaborative approach in terms of promoting economic welfare, normalization of political relations and pacification of the region.

The Council's initial goal was to help Armenian and Turkish companies streamline their operations and their lines of communication. Numerous TABDC sponsored trade missions since have introduced business leaders, in strategic sectors such as textiles and agriculture, to their counterparts across the border.

TABDC has grown from its early business focus to become an influential line of communication between the two governments as well. Advocating for the opening of the

Turkish-Armenian border and the establishment of diplomatic relations, officials from TABDC have established and maintain close ties with political leaders in both countries by advocating common interests in the creation of strong global economic policies. One of the highlights of this cooperation was the leading role TABDC played to arrange for the supply of earthquake aid from Armenia to Turkey in both August and October of 1999.

Officials from TABDC have engaged the media in both countries in an effort to bring Armenian-Turkish reconciliation issues to the forefront of public opinion and have enjoyed remarkable success over the years in increasing the number of news stories dedicated to this cause. TABDC has lobbied government agencies, political parties, and think tanks in both countries to begin to explore creative ways to heal the troubles of our collective past. And forging ties between special interest groups in both nations has been put on a fast track by TABDC sponsored exchange missions between business leaders, journalists, and women's groups. In 1999, Yerevan State University and Middle East Technical University signed a Memorandum of Understanding for student and faculty, and many new contacts have flourished.

TABDC identified the promotion of tourism and restoration of Armenian historical sites as another way to contribute to the economic development of both Anatolia and Armenia and to start to rebuild a cooperative and congenial relationship between the two populations who have lived together for centuries. The premier tour organized by the Diocese of the Armenian Church of America and TABDC in June of 2001 included over 150 participants and was a great success. Together with the financial support of the Istanbul Chamber of Commerce, a restoration project of Akhtamar Armenian Church on the Lake Van is now underway. A sold out concert in Istanbul featuring Udist musician Richard Hagopian, together with the Turkish group Lalezar, was organized by TABDC in March of this year and was a highlight of its efforts to promote joint cultural activities. Other features of its cultural exchange activities included producing an album named "TURAR," inspired by the sounds of Anatolia, which blend the best of Turkey and Armenia.

Another aspiration of TABDC is to mobilize the Armenian Diaspora to use their extensive business expertise and worldwide political connections to help develop new commercial opportunities for communities struggling on both sides of the Turkish-Armenian border. Most recently, a group of Russian Armenian businessmen traveled to Turkey at the

invitation of TABDC from March 25th – 30th , 2002. This was an historic first visit to Turkey for these entrepreneurs and provided an introduction to Turkish trade and industry leaders.

Mission Statement

A pragmatic approach can highlight the mutual interests of both Armenians and Turks and have a direct and lasting impact on public opinion. Deeds are more important than speeches. As fear is widespread, nothing can be taken for granted. Dialogue requires courage and building trust and confidence is essential.

TABDC believes in transparency to dissipate any atmosphere of suspicion. The on-going dialogue and cooperation should remain an open process, inclusive and unifying. We share the burden of the past and bear a joint responsibility for a bright future for our peoples. We are motivated by the past sufferings and present yearnings and hopes of people in Armenia, Turkey and diaspora. As mature European countries, we must strive to ensure success in our endeavors. Shaping the present and building the future are the only way to deal with the past. From our experience, we have learned that there is no obstacle for Turks and Armenians to start talking and collaborating.

The closed border is the only barrier preventing us from intensifying our business and human relations. A closed border that separates us makes no sense. We can foresee the great potential benefits to be realized by Armenia and Turkey. It is widely recognized that the destinies of our nations are interlinked. We share the same history and geography; we can shape our future through our joint endeavors in service of peace. We have never ceased to dream of Mt Ararat and Ani becoming the place of reconciliation between Armenians and Turks...

We, the Turkish-Armenian Business Development Council (TABDC), believe that it is time to pave the way for the multi-dimensional economic, political, commercial and cultural relations on the basis of good neighboring principles.

Turkey, looking forward to launching membership negotiations with the EU next year, is encouraged by EU to establish good neighborhood relations with her neighbors including Armenia. Turkey can contribute to the settlement of Nagorno-Karabakh conflict and regional integration by establishing official relations with Armenia.

The economic cost of the closed border is especially significant when assessed in terms of lost opportunities. Also the opening of the Turkish-Armenian border to cross-border cooperation is an important step taken forward in the path to regional peace and regional peace calls for solving bilateral problems.

There is a pressing need to take initiative for the permanent solution of our problems by actions on government level, as well as academic circles and NGOs. Henceforth, Turks and Armenians have to handle their problems sincerely and bravely within a broad framework, including not only yesterday but also today and tomorrow.

We call Turkish and Armenian leaders to give a new momentum to the process of dialogue. We remain committed to increase interactions between our two nations and believe in diplomacy supported by democratic constituencies throughout the region.

Part 6

Bridging Turkey to Russia through the Caucasus: Developing a Turkish-Russian Cooperation in South Caucasus

1. Bridging Turkey to Russia through the Caucasus: laying down the infrastructure: linking Turkey to rehabilitated South Caucasian infrastructure

A. Linking Turkey to the South Caucasian railway networks

Planned new projects

The rehabilitation of the traditional Caucasian railway system would have a much greater impact on the political stability and economic development of South Caucasus than the new railway projects. The study, after having highlighted east-west and north-south railway projects, will analyze the potential that is likely to be realized in case Turkey is linked to the traditional Caucasian railway network. This latter proves to be the best and most profitable option for all stakeholders involved.

The planned east-west and north-south railways will sustain the development of trade to a certain extent by opening up new communication routes. However, they are merely a recognition of the facts on the ground: in their very conception, these projects take for granted the status quo shaped by conflicts and ceasefire agreements. Based on the fragmented picture of the Caucasus, they carry the risk to deep freezing conflicts. Armenia and Nakhitchevan are being totally excluded, and Georgia is being proposed a second best option. The best option for Georgia will be the opening and rehabilitation of the traditional railway system, the same applies for Armenia and Nakhitchevan; all three of them are indeed located at the heart of north-south and east-west railway connections. Additionally, the new projects will be costly. If money is made available, it would better be allocated to address other needs of the region.

- East/West : Kars-Akhalkalaki

68 km of the railway worth USD 500 million goes through Turkey and 30 km via Georgia. The railway is to be commissioned late in 2008. The three countries' transport ministers are expected to gather late in August to discuss the railway construction.

- North/South: Kazvin-Resht-Astara

The representatives of Iran, Russia and Azerbaijan transport ministries signed a final agreement in Tehran on the construction of Kazvin-Resht-Astara railway, which will ensure direct railway communication between Moscow and Tehran via Baku. The project is estimated at USD 600 million, the railway would become profitable in five years in case the volume of freight reaches 20 tons each year. There is already a railroad connecting Russia and Iran, which passes through Julfa-Nakhitchevan-Ararat.

Opening up the North-South connection

The need to improve connections is widely recognized, initiatives appreciated, and well publicized in Georgia.

Georgian and Russian transportation authorities signed an “*open sky*” agreement granting the right to Russian airlines to carry out as many flights and routes as possible, Georgian airplanes retaining the right to deliver cargoes only to Moscow. It was also agreed to start negotiations to abolish quotas on the international automobile transport.

Russian Transport Minister Igor Levitin and Georgian Economic Development Minister Aleksis Aleksishvili signed an agreement in Tbilisi on January, 10th 2005 establishing a direct rail and ferry link between the Kazkav terminal at Novorossiisk and the Georgian Black Sea port of Poti. The ferry, which will carry freight in rail cars, will initially operate twice weekly and will facilitate transportation of goods not only between Russia and Georgia, but also Russia and Armenia. It is estimated that the cost of transportation between Armenia and Russia would decrease by 30%¹⁷¹. On this occasion, three documents relating to the ferry route, shipping laws, and temporary export were signed. Representatives from Azerbaijan and Armenia took part to the ceremony as observers. Russia will be the fifth country with which Georgia has direct ferry routes. Georgia has similar agreements with Bulgaria, Romania, Ukraine and Turkey. Chair of the Railway Department David Onoprishvili described the opening of the ferry link as an act of utmost importance not only for Georgia but also for Armenia and Azerbaijan. The ferry connection stretches between the Georgian port of Poti and Russia's industrial terminal of Kavkaz. Georgian. Kavkaz is a main export outlet for crude oil, oil products, and fertilizers. Its location on the Kerch Strait that

¹⁷¹ RFE/RL NEWSLINE Vol. 9, No. 6, Part I, 11 January 2005, «Georgia, Russia sign major transportation agreement »

links the Black Sea to the Sea of Azov makes it a major hub for goods meant to countries of the Mediterranean Sea basin. Russia sees the Poti-Kavkaz agreement as part of a long-term, larger project to resume railway transportation throughout the South Caucasus region.

The issue of the opening of the railway linking Georgia to Russia through Abkhazia, closed since 1992-93, was on the agenda of the meeting between the Ministers of Transports. The closure of this railways has been indeed a major impediment for North-South connections through Georgia and has been very badly impacting on regional communication. The Russian government has proposed to create a joint entity of the Russian, Georgian, Armenian, and Azerbaijani railways for operating the South Caucasus Railroad, from the Russian-Georgian border via Abkhazia to Tbilisi, Yerevan, and Baku. It envisages a joint regulation of rail cargoes, setting up a joint operating company to manage and upgrade the railroad, and a joint bank to finance restoration and upgrading, particularly of the Abkhaz section in Georgia. The governments of Russia and the three South Caucasus countries would finance part of that work and would also invite private capital investments into the joint company. The whole project hinges on reconstructing that section, which was severely damaged and idled during the 1992-93 Russian military intervention in Georgia. As a result, Armenia and Azerbaijan lost their rail links to Russia.

Armenia signed immediately letters of intent with Russia on the two countries' participation in the proposed four-country joint company. Georgian officials, first sceptical, accepted to form a consortium involving the railway departments of Georgia, Azerbaijan, Armenia and Russian to rehabilitate the line. Shares in the consortium would be divided equally: according to the assessments of Georgian officials, USD 34-50 million would be needed for the rehabilitation of the railway. Georgia put forth the condition that representatives of the Georgia Navy and Border department be placed at the Abkhaz-Russian check-points on the River Psou¹⁷², which forms part of the border between Abkhazia and the Russian Federation, where joint checks can be administered on cargoes.

Georgia has apparently softened this stance over the issue of restoration of a railway¹⁷³. Tbilisi has been linking the issue of the opening of the railroad to the return of

¹⁷² Ketik Sikharulidze, "Georgian-Russian ferry route agreed, Russian transport minister also discusses reopening of Georgian-Russian railway through Abkhazia", Eurasianet, January, 11th, 2005

¹⁷³ The Georgian daily *Rezonansi* (Resonance) quotes Georgian Parliamentary chairperson Nino Burjanadze as saying after talks with her Armenian counterpart Artur Bagdasarian, which was held on April 28, that Tbilisi

refugees. The linkage between the two issues was explicitly stated in the Sochi agreement of 2003 signed between Russia and Georgia. A new momentum has been thus launched. Ongoing talks have been supported by encouraging messages delivered by Russia and Georgia. Groups from Russia and Georgia, with the participation of the Abkhaz side have been holding meetings during summer 2005 to negotiate the technical issues for the rehabilitation of the railway. Davit Onoprishvili, the chief of the Georgian railways was reported as saying “*The fact is that this railway should be reopened sooner or later and Georgia will benefit from this*”.¹⁷⁴

Georgian Prime Minister Zurab Nougaideli, attending the CIS meeting in July 2005 told that Georgia was “*now positive*” about the resumption of the railway communication via Abkhazia, contrarily to “*Georgia’s previous authorities had a different position and were against [the reopening of this railway link]*”.¹⁷⁵ According to the chief of the Russian Railway Company, Genadi Fadeev, the cost of the rehabilitation of the portion of the railway is likely to amount to USD 100 million, which will further increase if the rehabilitation of the portion of the railway over the Enguri river, marking the administrative border between Abkhazia and Georgia, is included.

The real impediment to the restoration of the railway has rather been the insistence of Abkhazian authorities to collect transit fees on freight transportation. This concern has been recently reiterated by Abkhaz leader, Seygey Bagapsh¹⁷⁶. However, Abkhaz authorities seem aware of the economic benefit of the opening of the railway section. The local newspaper Rezonansi quoted Andrei Turikin, the representative of the self-declared Abkhaz Republic in the Russian government, as saying that if the stretch of the railway from Sochi to the Enguri River is restored, the Abkhazia portion of the railway will be able to carry one million tons of

“has changed its position over restoration of a railway link via Abkhazia and is ready to discuss this issue if a concrete progress is made in resolving of the [Abkhaz] conflict.”

¹⁷⁴ Civil Georgia, June, 15th, 2005

¹⁷⁵ “Georgian PM: Tbilisi Positive over Resumption Abkhaz Railway”, The Messenger, July, 15th 2005

¹⁷⁶ Abkhaz leader Sergey Bagapsh said at a news conference that the resumption of the railway link between Russia and Georgia via Abkhazia is more profitable for Georgia, Armenia and Russia, rather than for Abkhazia. “*However, if tariffs on freight transportation are acceptable for Abkhazia and if the infrastructure of the entire railway provides for the creation of 1,200 working places, we will agree to resume the railway link,*” Bagapsh said, but he did not specify the details surrounded these tariffs. “Bagapsh: Railway Reopening More Profitable for Armenia, Georgia, Russia”, Regnum News Agency, July, 12th 2005

cargo each month. He calculates that this will increase budget revenues for the separatist government by USD 500,000-800,000 per month¹⁷⁷.

The return of the refugees is an important issue per se and shouldn't be considered as a non negotiable pre-condition for the restoration of the connection. The fear that the restoration of the railway would help to legitimize the status quo and give a hold of economic levers to Sukhumi is being expressed. However, many share the idea that the opening of the railway will facilitated the return of refugees. Refugees settled in Zugdidi¹⁷⁸, a few kilometres from the ceasefire line, would certainly like to be granted free movement into Abkhazia – associated with the necessary security guarantees, as well as the population of Gali. This remark can be applied to the Georgian population as a whole suffering of being deprived of Abkhazia and regretting that roads had been severed because of the war. This feeling of deprivation has to be taken at a very basic and concrete level, namely associated with not being allowed to spend vacations in Sukhumi as many Georgians were used to do in their childhood or youth.

Opening up the East-West connection, and integrating Nakhitchevan, Turkey and Armenia to the North-South axis

Turkey is linked to the Transcaucasian railway system built during the Russian empire and subsequently upgraded during the Soviet era. The construction of the railway system of eastern Anatolia, running from Sarimakis to Kars, dates back to the Russian period. The Soviet rail system consisted of 32 railways, with a total length of 145,000km, and they carried 55% of all passengers and 25 % of all commodities transported.

The Armenian railway system connects Turkey with the Russian/Soviet railway network, providing access to the Caucasus, the Russian Federation and Central Asia. Armenia is the hub of the regional railway network and several lines cross its territory, which is situated at the crossroads of east-west and north-south communications. Akyaka, the last station of the railway that links Istanbul with Kars, is also connected to the Armenian city of Gyumri, providing access to Transcaucasian railway system. There have always been compatibility issues between the Turkish and Soviet systems, but the railway connection between Kars and Gyumri was operational until 1993. Gyumri is linked to several other

¹⁷⁷ M. Alkhazashvili, "Debate continues in Georgia on Abkhaz railway", The Messenger, August, 5th, 2005

¹⁷⁸ UNOMIG, Zugdidi. Failed attempt into Abkhazia.

railways, including the Yerevan-Julfa-Baku line that runs through Nakhichevan along the Iranian border, and the Yerevan-Sevan-Dilian-Gazakh-Baku line. Conflict, political disputes and closed borders have condemned this huge railway network, which was once essential for communication across the Transcaucasus.

The new TRACECA map, approved in December 2001 in Tbilisi, integrated the railway connection between the Turkish city of Kars and the Armenian city of Gyumri in the TRACECA transport corridor. The action plan for the 2002-2004 period takes into account rehabilitation of the container terminal at Gyumri railway station. The connection of the Turkish, Armenian and Azerbaijani railway systems will guarantee, via the Anatolian-Caucasus-Caspian route, the most favourable east-west transport corridor between the Caspian basin and world markets. Ensuring linkage with the Caspian basin is of utmost importance since investments are, and will be, mostly from Western countries.

The sea-rail combined transport route linking Anatolia and the Caspian basin is also the most cost-effective route. Crossing the Dardanelles, the Bosphorus and the later deviation to the Black Sea all represent extra costs for shipping companies. For shipping lines coming to Istanbul or the Mediterranean region, Black Sea ports are less favourable since the use of small feeder vessels requires transshipment. Most lines already make regular calls in ports like Istanbul and Mersin, and Istanbul is further linked to the Trans European Networks via Corridor IV.

The ports of Haydarpasa and Ambarli in Istanbul are of utmost importance since the Istanbul-Kars railway across Turkey has become part of the Transport Corridor Europe-Caucasus-Asia (TRACECA). The modernisation of these two ports and the rehabilitation of the railway to Kars, which requires minimum investment, would provide the most cost-effective and secure access from Europe to the Caspian region.

Furthermore, the connection between Turkish-Armenian-Azerbaijani rail systems would ensure a viable access to the Caspian for southeastern Europe and the Mediterranean region. Transportation costs between Samsun-Kars and Mersin-Kars being roughly equivalent, Mersin, which offers one of the best port facilities in the eastern Mediterranean, will prevent the need for the extra deviation and transshipment costs.

The opening of the Kars-Gyumri railway will bring new openings for regional cooperation and the Anatolian-Caucasus-Caspian route will add a cost-effective, commercially viable and strategically beneficial east-west railway that will ensure direct links between Turkey, Baku and the Caspian region, eventually opening Armenia and Nakhichevan to international trade and investment.

The issue of the restoration of the Kars-Gyumri railway is linked to the opening of the Turkish-Armenian border. The Kocharian government has been advocating on different international platforms for the restoration of the railway and the “*lifting for the Turkish blockade and embargo on Armenia*”¹⁷⁹. Increasingly, the beneficial regional impact of the railway is being highlighted, especially when it comes to advocate against the Kars-Akhalkalaki railway project. It is being stressed by Armenian officials, that there is one railway linking Turkey to South Caucasus and this over century old railway is going through Armenia. It is noteworthy that Armenian officials do forget that the Kars-Akhalkalaki railway is also aiming at linking Kars to Baku; and that the Kars-Gyumri section can become a major east-west corridor if only the Armenian-Azerbaijani portion becomes operational.

The US government and the European Commission have been advocating for the opening of the Kars-Gyumri railway for several years. USTDA has commissioned a feasibility study as early as 1998, the EC has been calling for the restoration of the railway regularly in its progress reports prepared for Turkey. The inclusion of the railroad in the TRACECA map in 2001 has given a symbolic boost to the advocacy work. Russia has recently been following suit and made a very concrete proposal in March, 2005.

The issue of the opening of the Turkish-Armenian border and thereby the restoration of the Kars-Gyumri railway has become an item of the Turkish-Russian relations. Russia used to keep silence of this issue giving the impression to support the status quo, and favoring that Armenia be cut off from Turkey. In the same way, Russia started supporting the normalization of Turkish-Armenian relations, considered potentially as an important step forward for the settlement Nagorno-Karabagh conflict. Furthermore, the issue of a Russian mediation in the normalization of Turkish-Armenian relations was raised at the bilateral meetings¹⁸⁰. The impression that Russia “*is not anymore an obstacle for Turkish-Russian relations*” is gaining weight in Armenia. During his visit to Yerevan on March, 24th-25th 2005, President Putin proposed that Russia leases the Kars-Gyumri railway and set up a joint Turkish-Russian management. Seemingly, Russia considers the railway as an important section for both North-South and East-West connections.

¹⁷⁹ Refer to the chapter 2.

¹⁸⁰ Refer to chapter 4

B. Linking Turkey to the South Caucasian energy network

The history of the Blue Stream: a missed opportunity for the Caucasus

The Blue Stream gas pipeline has obviously linked Turkey to its Northern neighbor. The Blue Stream has been, together with the BTC, a decisive energy projects of the 90's undertaken by Turkey. With the Blue Stream, Turkey's dependency on Russian gas supplies will increase to 70%. Turkey and Russia opted for a direct linkage beneath the Black Sea, preferred thereby the project to be remain purely bilateral excluding any intermediary. A gas pipeline running through the Caucasus and connecting Russia and Turkey was very seriously considered.

Four proposals of a gas pipeline through Georgia were on the agenda. These proposals were made in 1997-1998, and were all far more cost effective. Indeed, difficult for a pipeline to be built under the Black Sea to compete with proposals rehabilitating existing Georgian pipelines. It could have been possible to link Russia to Turkey alternatively by a pipeline running through Batumi, which according to assessment of experts would have cost only USD 600.000, by a pipeline through Akhalkalaki, by linking Hopa to the Western Georgian pipeline, which would have been the less expensive option. The fourth route was crossing into Turkey via Armenia, and therefore highly unlikely to be accepted by the Turkish side.

The option of a Caucasian route was ruled out in light of the political instability of the region. Politically, the easiest option has been to opt for the technically and financially most challenging option. The Blue Stream has been the achievement of the joint political will aiming at strengthening bilateral ties. Neither Russia nor Turkey had enough interest to ease tensions of the Caucasus.

Controversies on the possible privatization of the Georgian gas distribution system and the purchase of the trunk-line gas pipelines by Gazprom updated the idea of linking Turkey to Russia by a Caucasian gas pipeline. This was the main motivation of the agreement, and of the memorandum on a 25 year long strategic cooperation, signed between Gazprom and the previous Georgian government in July, 2003. The agreement was envisaging the rehabilitation (full overhaul of outdated pipes and equipment and increase of the capacity) of two trunk-gas pipelines and the use of the Georgian infrastructure for transit purposes to Armenia and Turkey through Adjara. The two Soviet-era lines run via Georgia to Turkey and to Armenia, respectively. Their combined throughput capacity is said to have fallen from 16 billion cubic

meters annually pre-1991 to 8 billion cubic meters annually at present, requiring an estimated USD 200 million to repair¹⁸¹.

Potential for transforming the BTC into a regional oil distribution network

As it is highlighted in the Regional Review¹⁸², The BTC pipeline is “*a project of regional significance as it represents the first direct transportation link between the Caspian and the Mediterranean avoiding the Turkish Straits*”. By establishing the first direct connection between the Caspian region, the Mediterranean and the Middle-East; the BTC pipeline will link tightly Turkey and South Caucasus. The BTC project is the cornerstone of Turkey’s policy towards South Caucasus. Turkey has been an important actor in the conception of the project, its finalization proves to be a real success for Turkish diplomacy, which required a constant effort and the disentanglement of a complex web of problems.

The pumping of oil through Baku-Tbilisi-Ceyhan (BTC) pipeline began on May 25th, 2005 and was marked by an inaugural ceremony attended by the Presidents of Azerbaijan, Georgia and Turkey. In a few month time oil shipments from Ceyhan are scheduled to start. The BTC is becoming a fact on the ground and will be “just a pipeline”.

The softening of Russia’s opposition to the Baku-Tbilisi-Ceyhan (BTC) pipeline project may be testimony to the growing success of pragmatically oriented Russian business interests¹⁸³. Russian companies have even shipped oil to Asia via the Gulf of Finland. Oil traffic in the Gulf of Finland is expected to triple within the next 15 years. Ceyhan will provide a more direct, secure route to South Asia than either this route or the Bosphorus; providing a convenient outlet for shipment through the Suez Canal, or an Israeli pipeline reversed to convey Russian oil to Asian markets.

- In 2002, Lukoil officials voiced interest in the BTC project which it was considering joining with a 7.5% share. The Russian government sent conflicting signals about letting it take part, but the Kremlin’s ultimate influence over Lukoil is a matter of debate.

¹⁸¹ Reuters, February, 24th, 2005

¹⁸² BTC Regional Review, February 2003

¹⁸³ ‘The oil business ignores Russian government attempts to pressure her southern neighbours into submission, particularly by declaring former Soviet Islamic republics the zone of her special interests...they are much more interested in getting their share before the final division of the Caspian riches takes place. Consequently, they have much more respect for the national ambitions of the “Near Abroad” states.’ Russian analyst Yakov Pappé, *Segodnya*, 15 August 1995, in Shoumikhin, A., ‘Russia: Developing Cooperation on the Caspian’, op.cit.

- An agreement was signed on 27 April 2002 between Rosnestegazstroy, the Russian pipeline construction firm, and the Georgia International Oil Corporation (GIOC) in Tbilisi. Russia now plans to send its own oil through the Tengiz-Novorossisk line to the BTC, via a pipeline that has yet to be built.
- In May 2002, Russia signed an agreement to transport some oil through a pipeline connecting its main export terminal, Novorossisk, with BTC, to reduce tanker traffic in the Bosphorus.¹⁸⁴
- In December, 2004, the BP representative in Baku, David Woodward, announced that TNK-BP is planning, starting from 2006, to transport crude oil through the BTC. In this regard, two options are under consideration: the use of the pipeline Baku-Novorossiysk to reach the BTC, or the transshipment by railroad of crude to the Russian port Astrakhan and then to Baku. LUKOIL exports crude to Iran by this road.

A proposal for a Turkish-Georgian-Russian oil pipeline..

During his visit to Moscow on February, 10th – 12th 2004, President Saakashvili offered Georgia's assistance in case Russia wished to construct an oil pipeline through Georgia¹⁸⁵. The proposed pipeline would pass from the Russian port of Novorossiisk, along the Black Sea Coast to Georgia via Abkhazia. If Abkhazia received a share of the profits from a similar pipeline passing through its territory en route to linking up to the BTC pipeline, policy-makers in Tbilisi believe Sukhumi might prove more amenable to reintegration with Georgia.

Turkey, part of Chubais's liberal empire? Turkey in North-South energy projects

The new Russian strategy, loosely described as "*forging a new liberal empire*", is being championed by Anatoly Chubais, «*Russia's one-time privatization czar*»¹⁸⁶ and the head of United Energy Systems. Some understood that Russia would take control over nearby energy sectors and use these platforms for exporting electricity and projecting power in new

¹⁸⁴ *Turkish Daily News*, 28 May 2002.

¹⁸⁵ Cory Welt, "A Georgian-Russian pipeline: for peace or profit?", *Eurasianet*, September, 3rd, 2004

¹⁸⁶ Igor Torbakov, «*Wanted : a new CIS policy for Russia* », *Eurasia Daily Monitor*, September, 23rd, 2004

ways. More accurately, the strategy foresees the pursuit of profit by Russian firms as a means for encouraging market reform and integrating the former Soviet Republics.

The strategic objectives of UES is to spread into the neighboring regions: this business objectives is clearly stated, and one doesn't have necessarily to see any imperialistic intentions behind it. The CIS region is indeed a priority zone for the company. Its activities consists of exports of electricity and operation of local energy entities. Electricity exports to CIS countries are considered as a priority, meanwhile the company underlines that the key condition for Russian electricity exports is full payment for all supplies. This should be a important insurance for those who are deeply convinced that the company is pursuing political goals. Seemingly, the company is as interested as any other private business, in making profit. The company has been striving to establish a single energy area in the territory of the former USSR. The Unified Energy System of Russia operates parallel with the energy systems of the 14 former Soviet Republics. The establishment of an integrated system enables cross-border energy projects, and increases the reliability of the systems. UES, is directly operating on foreign markets through its subsidiaries, is aiming to switch from wholesale electricity sales to energy companies to supplying electricity to end consumers. UES had developed strong business interest in the Caucasus, seen as an important transit zone.

RAO UES owns the Sevan-Razdan Cascade hydroelectric power plant, which provides 10% of whole energy produced in Armenia. The company is managing the nuclear power plant, Metzamor. Additionally, UES is planning to launch the 5th power-generating unit of the Hrazdan thermal power station.

British Midland Resources Holding Ltd, the owner of Electric Networks of Armenia [ENA], transferred 100 per cent of the company's shares for 99 years to the Interenergo B.V. company, a subsidiary of UES. Russia's electricity monopoly Unified Energy Systems has acquired the right to manage and receive profits from Armenia's national grid company. Midland Resources Holding had paid USD 37 million for Electricity Networks of Armenia in 2002, of which USD 25 million was to go toward paying the company's budget debts and overdue wages. The deal triggered controversies and was openly criticized because of its opacity by USAID¹⁸⁷ and the World Bank¹⁸⁸.

¹⁸⁷ USAID made a statement announcing that «Until the situation is clarified, USAID will be reassessing its programme of assistance to Armenia, in order to determine whether a change of ownership or non-respect of procedures could influence the success of the organisation's current and future programmes" Agence France Presse, "US agency reassessing Armenian aid following power grid deal", July, 20th, 2005

UES in Georgia acquired 75% of the shares of «Telasi», the Tbilisi power grid company, the units No. 9 and 10 of Tbilisskaya, 50% "Transenergy", the company engaged in electricity exports, and rights to manage two hydroelectric power plants owned by AO "Khramesi". It controls 20% of Georgia's generating capacities and 35% of electricity supplies to the Republic's consumers. In 2004, UES has invested USD 5 million in funds in Unit 9 of the Tbilisskaya TPP, and over USD 6 million in Telasi's distribution grids. It has succeeded in improving the payment discipline of Tbilisi's power consumers and increase the payment collection rate from 40% in the summer of 2003 to 80% of the actual cost of electricity supplied in 2004.

To use Georgia as a hub to export electricity to Turkey and throughout the region

The company is equally interested in getting the control of the Georgian transmission network. The aim would be, after setting up a unified energy system in the Caucasus, to export towards Turkey. This idea has been sporadically on the agenda for a couple of years. In October 2000, Russian Prime Minister Mikhail Kasyanov on a visit to Turkey proposed to raise bilateral relations to the level of a strategic partnership. Russia offered to sell more electricity to Turkey through a tripartite scheme involving Georgia and, more recently, the company was ready to export electricity to eastern Anatolia from the Georgian power plant at Inguri.

UES is also considering the possibility of obtaining the right to manage Georgia's hydroelectric plant, Inguri. The Russian monopoly that controls Georgia's main power company, would like to use Georgia as a hub to export electricity throughout the region. Without the input of the Inguri hydroelectric power station, located on the Abkhaz-Georgian border, this task could prove prohibitively difficult. The project is apparently of interest to Georgian and Abkhazian officials. In June, 2005, at a meeting where the Abkhaz authorities agreed to pay the cost of electricity consumed from the Enguri hydro power plant¹⁸⁹, the decision to export electricity produced in Inguri to Turkey was also reached¹⁹⁰.

¹⁸⁸ PanArmenian News, "WB urges to clarify situation with Armenian distribution networks", July, 13th, 2005

¹⁸⁹ Until now the Georgian authorities were paying the cost of electricity consumed from the Inguri hydro power plant, which is located at the administrative border between Abkhazia and rest of Georgia.

¹⁹⁰ Civil Georgia, "Georgian, Abkhaz Sides Agree on Cooperation in Energy Sector", June, 10th, 2005

Although, the electricity distribution company in Adjara has not yet been put on the privatization list, UES expressed its intention to offer a privatization bid¹⁹¹. The company is indeed planning to generate power in Georgia and distribute in the country and transit it to Turkey. Anatolii Chubais was reported having said in a joint press conference with the Georgian Energy Minister David Mirtskhulava on August, 6th 2005 *“By entering the country, we became a part of the Georgian energy system and we will try to enhance our business, since there are good opportunities for the development.”* According to the Georgian Minister of Fuel and Energy, Nika Gilauri, *“talks are underway over the construction of a power transmission line, which will connect Russia with Turkey, via Georgia. Through the new line, Turkey will receive 5 billion kW/h of electricity annually”*¹⁹². Currently, Turkey is supplying electricity to Adjara to help Georgian authorities to address to energy deficit. The Muratli power plant in Artvin has started recently supplying Adjara.

2. Bridging Turkey to Russia through the Caucasus: transforming the Caucasus into a cooperation zone among Turkish, Russian and Caucasian businesses

A. Georgia as perceived by the Turkish private sector

In 2001, Georgia's trade turnover has reached USD 1 billion for the first time. It amounted to USD 2.495 billion in 2004, exports reached USD 648.8 million whereas imports were USD 1.847 billion. The share of the ten major trade partners are representing 75% of the total turnover. Russia is the first trade partner, and Turkey the second, and the bilateral trade volume are respectively USD 362 million and USD 321 million. Turkey's share is 13% and Russia's 14,5%. Energy supplies are worth 20% of the imports. Turkey is indeed the first supplier of the Georgian economy for non energetic products. Georgia's trade volume with Turkey has mounted rapidly since independence. According to the Turkish State Institute of Statistics, bilateral trade worth USD 12 million in 1992 was transformed into trade worth USD 270 million in 2001. It is difficult to draw clear conclusions about Georgia's trade because of the lack of reliable data. A significant share is not recorded at all. Furthermore, figures often do not reflect effective transactions. There are 'mirror problems' with most bilateral statistics. In Turkey's case, the situation is equally problematic. Data from Georgian

¹⁹¹ RIA Novosti news agency, Civil Georgia, « Russian energy giant eyes power grid in Ajara », May, 3rd 2005

¹⁹² Civil Georgia, May, 28th 2005

and Turkish sources differ significantly. According to the Turkish statistics, bilateral trade volume is much higher¹⁹³.

Major trade partners of Georgia in 2004

<i>Countries</i>	<i>Imports USD million</i>	<i>Exports USD million</i>	<i>Total USD million</i>	<i>Total (%)</i>
<i>Russia</i>	257,8	104,6	362,4	14,5
<i>Turkey</i>	202,3	118,7	321,0	12,9
<i>U.K.</i>	171,4	31,6	203,0	8,1
<i>Azerbaijan</i>	157,7	25,4	183,1	7,3
<i>Ukraine</i>	142,4	15,3	157,4	6,3
<i>Germany</i>	151,1	15,9	167,0	6,7
<i>U.S.A.</i>	111,0	21,3	132,2	5,3
<i>Turkmenistan</i>	32,7	115,1	147,8	5,9
<i>Armenia</i>	25,4	54,5	79,9	3,2
<i>Italy</i>	61,5	11,6	73,1	2,9
<i>Others</i>	533,8	134,9	668,7	26,8
<i>Total</i>	1. 847	648,8	2 495,8	100

It is often argued that bilateral political problems with Russia reflected in a positive way on relations with Turkey. Turkish relations are highly prized in Georgia and it has played a major role in helping it achieve some form of economic independence after the break-up of its traditional trading network. The opening of the border at Sarpi/Batumi clearly had a huge impact since it brought Georgia an opening to the world outside. In the time being Sarpi/Batumi is the only operational land border providing an access to the Caucasus and Caspian region from Turkey.

¹⁹³ For instance, Georgian exports to Turkey amounted to \$53.6m in 2002 according to Georgian official statistics, whereas \$137.5m of Turkish imports from Georgia were reported by the State Institute of Statistics of Turkey (SIS). Georgian exports to Turkey in 2001 amounted to \$68.7m according to the Georgian statistics, while the SIS registered \$127.2m. Among the main reasons for the discrepancies are the use of double invoices to avoid high taxation at customs and the fact that Turkish trade with Armenia transits mainly through Georgia, and thus is registered by Turkey as trade with Georgia.

Foreign direct investment in Georgia

From independence till 2004, foreign direct investment in Georgia has amounted to USD 2 billion, most of it accruing after establishment of relative internal stability in 1995. Investment from 1995–2001 accounted for USD 750 million of the total, with the US, the United Kingdom and Turkey the top three investors. The major Turkish investors are Sisecam and Turkcell. Mina is the sole producer of glass containers in Georgia and one of the biggest in the Caucasus. The company was established in 1994 on the bases of Ksani Glass containers factory. The Turkish glass company Sisecam is the owner of the company since 1997. Mina Cam is exporting 70% of its production. Fintur, a subsidiary the Turkish company of Turkcell, is the principal shareholder, Geocell , which is the principal GSM operator in Georgia. An international consortium led by the Turkish company Çelebi Holding won USD 65 million tender for the Tbilisi airport. Investments for the renovation will be realized in a year, and the company will be managing the airport for 11,5 years. Many Turkish companies are operating in transport and construction sectors and a wide range of commercial activities. Some of them are working as the regional distributor and/or representatives of Turkish companies. It is worth mentioning that several US companies entered the Georgian market through Turkey. The distribution and/or the production center based in Turkey offered the access to the Georgian market. Let's quote the names of Coca-Cola, Colgate and Procter Gamble.

The “cargo” transportation between Turkey and Georgia

Yalcinlar Kargo

Yalcinlar Kargo is one of the two companies involved in “cargo trade” between Georgia and Turkey. A wide range of commodities mainly foodstuff and textile are imported by trucks under a special regime and sold on market place. Yalcinlar Kargo has been operating in Georgia since 1993. The company is based in Istanbul and has offices in Hopa and Artvin. In the 90's the “cargo trade” used to be a very profitable business: all products sold on the market places were coming from Turkey. There were 30 trucks per week traveling between Turkey and Georgia. This figure has been reduced to 6 trucks per week, mainly due to the increasing competition with Chinese products.

A truck transports commodities worth USD 100 000. Customs duties paid at the Sarpi border crossing, previously set at USD 15 000, has increased at USD 30 000. The entry tax is USD 160. These trucks are mainly providing the Lilo market, near Tbilisi. The annual turnover of the market is estimated at USD 15 million. The Lilo market used to be earlier a regional market, providing Baku, Yerevan and Vladikavkas.

Yalcinlar Kargo is very much interested in north-south overland communication through Georgia. The company is also providing Armenia. However, “cargo transportation” to South Russia has become the most profitable business. A truck traveling to Vladikavkas is usually transporting commodities worth USD 300.000. When the Upper Lars border crossing

between Georgia and Russia is operating well, the company can even send up to 37 trucks per week to South Russia.

Yalcinlar Kargo is looking forward for the improvement of the north-south communications through the Georgian territory.

Interview realized in Tbilisi, April, 2005

B. External economic connections of Abkhazia

Abkhazia's leading exports are tea, citrus, tobacco, scrap metal, timber and hazelnuts. Grain, flour, sugar, butter, potatoes and fuel are its most common imports. In recent years, timber exports to Turkey have dominated total exports by value. About 60% of recorded imports are from Turkey, with the remainder from Russia. As for registered exports, Russia receives 54% and Turkey 45%.

The Turkish Black Sea coast once had close trade links with Suchumi and Turkish businessmen were major suppliers of Abkhazia. Although these links created concern in Tbilisi, Turkish ships continued to supply Suchumi from Trabzon in defiance of a Georgian maritime blockade. Under article 6 of CIS Summit declaration on 19 January 1996, Abkhazia is officially under a trade embargo.¹⁹⁴ Trade between Trabzon and Suchumi declined at the end of 1990s after Georgia tightened its maritime patrols, but the interception and confiscation of Turkish vessels by the Georgian coast guard have caused serious trouble in bilateral relations.¹⁹⁵

The Georgian authorities maintain the Abkhaz portion of the maritime border closed for all forms of maritime traffic, and use force against any vessels violating the blockade. Georgian border guards have detained 40 vessels from Turkey, Ukraine, Greece and other countries for breaching navigation rules and trespassing the border in the past three years. Most of them were under Turkish flag. Foods from the Turkish vessel, which has been detained in July, 2005, for an attempt to trespass the Abkhaz sector of the Georgian sea

¹⁹⁴ Abkhazia is an undivided part of Georgia. The Member Countries of Community without the permission of the Government of Georgia:

- a. will not carry out any trade-economic, financial, transport and other operations with the so-called Government of Abkhazia;
- b. will not contact representatives of the existing structures and officials, also the members of its armed unit.'

¹⁹⁵ According to Georgian sources, about 40 ships, most flying the Turkish flag, transported commodities and passengers to Abkhaz ports between 1999-2003. Two Turkish fishing companies, Kiyak Kardesler and Konev Ltd., have agreements with Abkhazia's Ministry of Economics. Ships intercepted include *Mithat Eregli* arrested for transporting wood; *Bezat Kaptan*, detained for fishing; *Gustem Oglu*, for fishing; *Abal Balikcilik*, for fishing and transporting passengers; *Sakir Reis-2*, for fishing; *Yildizli*, for transporting coal from Abkhazia; *Shakir-Baba-3* and *Selim-1*, both confiscated for illegal fishing, were both sold at auction.

border, with its cargo reportedly worth of USD 300,000. The national laws of Georgia stipulate the confiscation of food from the detained vessel. However President Mikhail Saakashvili preferred to make a gesture and donate the foods to residents of Abkhazia. The vessel was taken to the port of Poti. The captain and eight passengers to three-months custody. The vessel owners will have to pay a fine or the vessel will be sold at an auction¹⁹⁶.

Grain and flour are imported from Russia and Turkey. Timber exports from Abkhazia have grown at the end of the 90's. Turkish citizens based in Sukhumi have been active in timber trade, regular shipments are said to leave Ochamchira and Sukhumi twice a week. The Turkish companies, Konev Ltd. And Kiyak Kardesler, which have signed agreements with Abkhazia's economics ministry, dominate the fishing and fish exports markets. Private Turkish companies that export coal to Turkey primarily work the mines in Abkhazia. Ada Madencilik San Ltd signed an agreement in 2000 to mine the Khudzga pit on Tkvarcheli. Another Turkish firm, Kara Elmas Ltd is involved in the Tkvarcheli coal deposits. At the end of 2001, it renovated a coal enrichment plant in Tkvarcheli that uses coal from the Khudzga pit. Barasan, another Turkish firm, has also invested in the Tkvarcheli "mining directorate"¹⁹⁷.

Despite the CIS decision to limit trade with Abkhazia. In 1998, the Russian Duma passed a motion that obliged the president to take unilateral action to change cross-border and customs relations on the Abkhaz section of the Georgia-Russia border, effectively abolishing the CIS sanctions and related UN decisions. In September 2004, the Russian Railways reopened the Abkhaz section for partial service from the Russia-Georgia border station Vesylaya to Sukhumi. Georgia strongly protested against this act perceived as a seizure of Georgian state property, leading to the erasing of the Russia-Georgia border in the Abkhaz sector, de facto Russian-controlled on both sides. Currently, Russian Railways runs the line as part of its network.

In December, 2004, Russia's government introduced a set of blockade measures against Abkhazia for the declared purpose of preventing the inauguration of president-elect Sergei Bagapsh, victory over the Moscow-backed candidate Raul Khajimba in Abkhazia's October 3rd, 2004 presidential election. Gennady Bukayev, an aide to Russian Prime Minister Mikhail Fradkov, announced the sanctions at a news briefing in Moscow. The transportation

¹⁹⁶ ITAR-TASS News Agency, « Food from detained Turkish vessels to be sent to Abkhazia », July, 12th, 2005

¹⁹⁷ David Chkhartishvili, Roman Gotsiridze, Bessarion Kitsmarishvili, « Georgia: conflict regions and economies », in International Alert (ed), From war economies to peace economies in the South Caucasus, London, St-Petersburg, 2004

in either direction of agricultural produce across its border with Abkhazia to Russia almost stopped. Hitherto, people entering Russia from Abkhazia were permitted to transport up to 200 kilograms of produce; that amount has been cut to 5 kilograms. Abkhazia imports food from Russia, and many residents of the republic make their living by transporting tangerines to Russia for sale¹⁹⁸. Employment in Russia and cross-border shuttle trading are survival matters for Abkhazia's residents. In winter, citrus fruit exports to Russia are the main source of revenue. The "temporary" sanctions are timed precisely to the citrus harvest in Abkhazia and the pre-Christmas peak of Abkhaz citrus sales in Russian cities.

C. The Gates to the Caucasus and to South Russia

Sochi, the Turkish gate to South Caucasus

Sochi is an important access gate to Southern Russia and 5,000 Turkish businessmen are said to be based in the city. Trabzon has developed its relations with Sochi for over 10 years and the two have a twinning agreement and their chambers of commerce are sister organisations. A Turkish honorary consul will shortly be appointed and a Turkish business centre is under consideration. Turkish entrepreneurs have expressed a willingness to invest in the port's modernisation and they are considering building a port for Turkish freight. Turkish businessmen around the Black Sea regard Rostov and Krasnodar regions as very promising business opportunities. Although the Trabzon-Sochi maritime line is an important commercial route, Turkish entrepreneurs bitterly recall the time when they could reach Sochi by road through Batumi in six hours. The sea connection takes 12 hours.

Rostov-on-Don

Rostov-on-Don, considered as the "Gates to the Caucasus" is the main center of South Russia. Apart from being a major port, where the vessels of Russian, Armenian, Greek, Italian and Turkish merchants tied up, it was an important strategic point; in the 18th century, the Rostov fortress with its bastions and cannons was the largest on the South of Russia.

¹⁹⁸ RFE/RL NEWSLINE Vol. 8, No. 226, Part I, 3 December 2004, "Russia bans exports, imports of agricultural produce from Abkhazia".

The Rostov region is one of the richest and most resourceful areas in the Russian Federation. Due to the mild climate and “black” soils, Rostov produces a vast variety of food and agricultural products including such cold-weather sensitive crops as grapes and peaches. In fact, the spirit of free enterprise survived in Rostov through all dark times and now gives an advantage for numerous private businesses in the city. Rostov is one of the biggest industrial centers in Russia. Today the city produces combine harvesters and transport helicopters, furniture and refrigerators, cultivators and footwear, champagne and tobacco goods.

After the construction of the Volga-Don navigation canal, Rostov became a five-sea port accessible from the Black Sea, the Sea of Azov, and the Baltic, White and Caspian seas. And the famous Russian river-to-sea-going motor vessels now make regular runs from Rostov to many Mediterranean ports.

Leading Industry Sectors

The leading industry sectors of the Rostov region are food processing (25.7% of the total regional output), machine building and metalworking (23%), metallurgy (12.2%), power generation (17%) and fuel and energy (7.1%). There was a remarkable change in the structure of the industrial output by industries in 1999 compared to 1997. In 1997 the leading industries contributed to the Rostov’s regional output in the following order: power generation (27.2%), machine building and metalworking (21%), food processing (13.7%) and the fuel and energy sector (13.3%). The drastic fall of the fuel and energy sector can be explained partly by the closing of 30 to 62 coal mines operating in the area, the result of the Russian government’s decision in the early 1990s to stop subsidizing unprofitable coal mining. The upturn of the food-processing sector is the result of the ruble devaluation and import substitution: before the August crisis in 1998 most foodstuffs were imported.

The Rostov region is the second largest producer of agricultural products, including grain, sunflower products, fruits and vegetables. Products such as coal, fuel, equipment, grain and sunflower seeds produced in the region are exported. Among the newly developed industries where mostly small- and medium-sized businesses are involved, some activity is observed in polygraph and woodworking industries. Construction and construction materials production are based on the local raw materials and are mostly for the domestic market.

Due to its geographical vicinity and historical ties with the Rostov region, Ukraine takes the leading part (26.4%) in the total trade turnover of Rostov. Turkey is also a major partner and the leading foreign investor in construction.

Krasnodar, the “Kuban”

The Krasnodar region, with a population of 5 million, is located approximately 1,000 miles south of Moscow and is bisected by the Kuban river. The neighboring regions are Rostov Oblast in the north, Stavropol Krai to the east, Georgia to the southeast, Turkey (across the Black Sea) to the south and the Ukraine (across the Azov Sea) to the east. In addition to the capital Krasnodar, other well-known cities are Sochi and Novorossiysk. Krasnodar is the capital and largest city of Krasnodar Krai (region). Disruption in the northern Caucasus has caused social dislocations that have kept the unemployment rate high and per capita production about half the national average. Nevertheless, Krasnodar Region holds tenth place in Russia in terms of gross regional product among the 89 regions, and it is a net contributor to the federal budget. Krasnodar bestrides Russia’s “*Black Earth*” soil belt, boasting a favorable climate and over 100 different crops, as well as orchards, vineyards, tea plantations, citrus trees, rice, sunflowers, and a developed network of processing, storage, and trade facilities. The Krasnodar region has always been the principal “*breadbasket*” of the Russian Federation. It has 3% of all ploughed lands in Russia. It also has Russia’s only specialized agricultural university. The region produces approximately 6% of meat and dairy products, 10% of all-Russian grain, 30% of fruit production, 60% of oilseed production, 90% of rice production and 97% of wine production. On each agricultural indicator, it is always in the top few, often leading the pack. The agricultural significance of the region has only truly emerged with the break-up of the Soviet Union and the consequential “expatriation” of the large agricultural belts of the Ukraine and Kazakhstan in particular. That significance has not led to rapid agricultural development.

Given the strength of the prime agricultural sector of the Krasnodar regional economy, unsurprisingly over 43% of the food processing industry of the Russian Federation is located in the region, linked to the primary producers. With canned and bottled products, wines, spirits, vegetable oils, fruits, meat and poultry, fish (freshwater and seawater), juices, vegetables, pickles and spices, the spectrum of this industrial sector in the region is impressive. Food processing represents over 50% of the total industrial base of the region and is the largest employment sector of the regional economy. The Krasnodar region contains the only concentrated resort sector in the Russian Federation. The region is home to 25% of all registered hotels and resorts in Russia.

As a frontier and crossroads, Krasnodar Krai ports such as Novorossiysk and Tuapse account for nearly 70 percent of Russia's trade turnover, serving the Transcaucasus and countries of the Caspian Sea, the Black Sea, and beyond. The Krasnodar region is the prime sea gateway to the Russian Federation. It is known as the "southern gateway" to Russia. Overall, the Krasnodar region provides some 40% of all Russian port cargo handling capacity.

Krasnodar's regional trade turnover exceeds USD 1.5 billion, with imports amounting to less than two-thirds of exports. Foreign investment in Krasnodar Region ranks third after Moscow and St. Petersburg. There are several hundred registered joint ventures with foreign capital, most with Turkey (146). The United States has about 70. Multinational companies in the region include Cargill, Nestle, Chevron, Petrak, ConAgra, Monsanto, Tetra-Pak, Danone, Pepsi-Cola, Philip Morris, Troy, Bouyges, Radisson, and the Caspian Pipeline Consortium companies. Krasnodar Krai features more than 300 companies with foreign investment. The region is a base for small and medium-size manufacturing industries.

D. Sustaining the development of SMEs in the region

It is widely recognized that the development of entrepreneurship and small and medium sized enterprises (SME) has an important contribution to make to the process of economic and social transformation to a market based system, offering a possibility to involve a wide cross-section of society.

According to official statistics, the number of small enterprises in Russia has not increased since 1994. After doubling each year in 1991/2 and 1992/3, the total number of registered enterprises leveled off and has fluctuated between 800-900,000. Small companies account for 10-12% of Russia's gross domestic product (GDP), and employ 17-19% of the labor force. In most economies, including highly industrial economies, the small business sector is two or three times larger. It must be recognized that the picture emerging from business registration statistics is potentially misleading since only registered enterprises are included; individual entrepreneurs without legal status are excluded. The vast majority of SMEs in Russia are dealing with trade and catering and exhibit a relatively steady growth over the last years. 15.8 per cent of SMEs in 1999 were in construction sector. Almost the same number of SMEs (15.7 %) are in industrial production sector. The majority of enterprises are dealing with engineering and metal-working, light industry, wood manufacturing and the food industry.

The North Caucasian dimension

The economic complex of North Caucasus was formed on the basis of broad co-operation with south-eastern areas of Ukraine and the republics of South Caucasus. As a result of collapse of the USSR North Caucasian economic region lost about 70% of connections with the republics of South Caucasus, 50% – with Ukraine, 30 – 35% – with Russia. The economic approach has been seemingly gaining weight in Russia's policy toward the Caucasus region. The appointment of former Labor Minister Aleksandr Pochinok and aide to Prime Minister Mikhail Fradkov, as deputy presidential envoy to the Southern Federal District, was hailed as an important step forward¹⁹⁹. The economy is in poor shape with average per capita income in the North Caucasus 50% lower than the national average. Unemployment in Daghestan, Ingushetia, and Chechnya is 60%.

Development of frontier co-operation with Georgia and Armenia is strongly supported by North Ossetia. Prospective forms of co-operation with Georgia are establishing of joint industrial companies, common investment projects in power engineering and transport. North Ossetia has cross-border relations with Kazbek region of Georgia, the companies of republic co-operate directly. The Government of North Ossetia Republic has prepared a large agreement for development of co-operation with Georgia in all areas, including economy; some joint projects are developed, including joint construction work and opening of shops in Vladikavkaz and Tbilisi.

Georgia, in its turn, shows interest in establishing close relations with North Caucasus. A special committee on relationships with the peoples of Caucasus in the Georgian Parliament has determined the priorities of economic co-operation: Rostov Region, Stavropol Territory, Kabardino-Balkariya are among appeared as the targeted regions. Georgia can export to the southern Russian regions its alcohol products, tea, citrus fruit, mineral waters, as well as to expand tourist and resort services; and import from Stavropol and Krasnodar, grain, poultry-farming and cattle breeding industry products.

Turkish businessmen have been developing business links with South Russia. Direct business relations with the administrative units of the Russian Federation were established after the 1998 financial crisis. Turkish companies have started investigating new markets in the Russian Federation. Economic cooperation on a regional level is gaining weight in the

¹⁹⁹ "Nezavisimaya gazeta, December, 20th, 2004, "Former Minister sent to straighten out Caucasus economies"

commercial strategies of Turkish companies towards the Russian market. South Russia/North Caucasus region, considered as a nearby source of supply for Turkish economy, is sometimes described sometimes as Turkey's backyard. Turkey has been importing from North Caucasus all kind of minerals, oil products, skins, coal and stones.

Turkish private sector associations have been establishing institutional links with the region. As soon as March 1993, officials from the Kabardino-Balkariya republic visited Ankara and signed an agreement with the Union of Chamber of Commerce of Turkey (TOBB). The Kabardino-Balkariya republic signed directly agreements with some Turkish private companies. A first protocol for cooperation in construction, agriculture and trade activities was signed in 1993. In March 1995, the Turkish firm Cerrahoglu signed a second protocol for cooperation in food processing, bottling of mineral water, support for the building of an airport. A third protocol was signed in December, 1997 with the firm EKOL. The field of cooperation was even extended to support given for the development of the free industrial zone. In 1999, an agreement aiming at the development of energy resources, was signed with the company AKFEN.

A similar pattern was applied for framing cooperation between Turkey and Daghestan. Turkish private sector has been very active in construction projects in the Adigey Republic. The Turkish firm İlk Umut built building for commercial banks. The Turkish-Adigey joint venture, Pent Konut, has been constructing housing and trade center in Maykop, capital of the Republic. Turkey is the first trade partner of the Karacay-Tcherkes republic, and mainly importing skins and whool. Turkish building companies have been very much involved in project in North Ossetia²⁰⁰.

Structures promoting integration and cross-border economic activities

The Association "North Caucasia" established in 1992, promotes co-operation and business relations among republics, territories and regions of North Caucasus. All subjects of North Caucasian economic region and Kalmykia are members of this Association. The associated members are Abkhazia, Crimea, Lugansk Region (Ukraine) and Southern Ossetia. Since 1992 within the Association more than 80 agreements between republics, territories and regions of North Caucasus have been concluded, joint projects are implemented. It has developed a Programme of development of the transport complex of North Caucasus and the programme "Power engineering of North Caucasus; the programme "Food products" is under

²⁰⁰ S.L. Logunova, «Türkiye Cumhuriyeti ile ticari-ekonomik isbirliğinin gelişiminde Rusya Federasyonu idari birimlerinin rolü : Kuzey Kafkasya Cumhuriyetleri önergi», in Gülten Kazgan, Natalya Ulçenko (eds), Dünden bugüne Türkiye ve Rusya, politik, ekonomik, kültürel ilişkiler, Istanbul Bilgi Universitesi yayinlari, November, 2003, Istanbul

development. The programme on transport development defines the most important issues of the current transport complex and sets forth the priorities of the future development. The energy programme contains specific proposals and ways of their implementation to overcome the shortage of power supply in the region. The programme on food products envisages creation of interregional food market and conditions for control over prices first of all through the liquidation of the system of second-hand dealers and streamlining of the schemes of transportation of food products and raw materials for food production. The association is supported by the Russian Union of Manufacturers and Businessmen, which is particularly interested in the following key projects: construction of a paid high-speed highway Moscow – Northern Caucasus; development of port facilities on the Azov Sea; an effective utilisation of oil and power resources in North Caucasian economic region

"Caucasian Common Market" was set up in 1997 by Chechen politicians with western support, aims to integrate the Caucasus region by implementing projects of economic interest. A branch has been established in Georgia, a insurance company for foreign investments has been set up. The main project of Caucasian Common Market is construction of the so-called northern pipeline route for export of the Caspian oil to Western Europe. It is planned to construct new oil pipelines and to link the existing ones on the line Baku – Grozny – Rostov-on-Don – Ukraine – Poland – Western Europe. The part of the transit tariffs from oil transfer is planned to leave to North Caucasian republics.

Source: I.G. Kosikov, L.S. Kosikova. North Caucasia: Social and Economic Reference Book

Conclusion

Rehabilitation of the traditional Caucasian infrastructure : integration by taken into account the North-South dimension

There is a pressing need to avoid regional approach based on a narrow version of the traditional “silk road”, which used to be a trade route. Therefore, pragmatism and cost effectiveness were the key notions: the “silk road” had never characterized a single east-west corridor, but a number of alternative trade routes. Furthermore, infrastructure projects based on facts on the ground resulting from conflicts will have a less than optimal economic impact. The North-South connections through the Caucasus are equally important.

The Caucasus was at a heart of a complex web of communication. Countries on the Turkish-Caucasian borderlands, Georgia, Armenia and Nakhitchevan were the hub of a this communication network, located at the heart of North-South and East-West connections.

The Caucasus, once a hub of communications, became a cul-de-sac with the breakdown of traditional transportation routes. The restoration of transport links has the potential to mitigate tensions. In this regard, it is essential to deal at once with the east-west and north-south connections that link Turkey to the regional network. Broadly speaking, the Turkish-Armenian route is the most efficient east-west connection, while the Turkish-Georgian route is the most efficient north-south link. Armenia also provides the best access to Azerbaijan, and Georgia the best access to southern Russia.

The pressing need to untie to “Turkish-Armenia” and “Russian-Georgian” knots : opening-up the Turkish-Armenian and Russian-Georgian borders to trade and human interactions

The opening-up of economies and diversification of external connections is more likely to create a momentum for regional integration than to increase centrifugal dynamics. By redefining and broadening the region, internal oppositions will be mitigated. In this regard, the economic dimension of the political settlement of conflicts should not be underestimated. Border openings and the establishment of official trade relations carry the potential to foster new dynamics to defreeze conflicts by questioning the status quo, rather than recognize the facts on the ground and exacerbate centrifugal forces.

An insular development model cannot be a sustainable option

South Caucasian countries have been steadily developing since mid 90's. Populations are much better off. The impression that the worst hardships had been overcome is widespread and is actually based on objective facts. However, South Caucasus cannot fully realize its development potential as long as it stays fragmented. Formerly a transit zone, at the heart of east-west and north-south connections, South Caucasus has been a cul de sac. Economic viability can only be reached with the opening up and integration. A insular development model cannot be a sustainable option.

Re-orientation away from regional polarization and development of a pragmatic approach based on business initiatives

The future of a region depends on its re-orientation away from regional polarization. There is a pressing need to transfer the unique economic cooperation between Russia and Turkey – a cooperation that verges on interdependence - to South Caucasus. Foreign investments are still being often associated with ownership, control and territorial gain. There is a need to promote pragmatically-oriented approaches based on self-interest and business initiatives, and to stress the importance of competition, rather than confrontation and domination. In this regard, Turkey and Russia can set the example. The two traditional foes found a political common ground. Economics and private sector actors have been the driving force in this rapprochement.

Transferring the Turkish-Russian Cooperation to the Caucasus

The outer edges of the Russian and Ottoman Empires in the past, the Caucasian front had usually been secondary in the Russo-Turkish wars, paneuropean in scope. Events of the Caucasian battlefields impacted considerably on the general conflict. However, the stakes of the battles had never been in the Caucasus. The century-old efforts of the Russian Empire to penetrate the Caucasus and the nearly two hundred years of Russian involvement in the region, together with its search for controlling the Black Sea were justified in an offensive strategy against Turkey. It is noteworthy that Turkish-Russian relations have been steadily developing throughout the 90's on a parallel track: Moscow and Ankara have been extremely

cautious to prevent a spill over of a tension emanating from the Caucasus to the whole bilateral relations.

Although neither Turkey nor Russia have any vital interest in South Caucasus, they are not given the option to forget about the Caucasus. Turkey can't turn its back to its young South Caucasian neighbours, Russia cannot withdraw entirely and chose to get rid of the "*Caucasian problem*". Turkey and Russia have the uppermost stake in the stability of the South Caucasus. Ensuring the sustainable stability of the Caucasus region is the only relevant strategic concern for these two neighboring states. This objective is being progressively recognized as a key issue in Turkish-Russian bilateral relations.

The development of a Turkish-Russian cooperation shouldn't be assimilated to a "*double imperialism*" imposed on the Republics of South Caucasus. A Turkish-Russian cooperation can be practically thinkable as long as it is welcomed by the South Caucasian states. It can be developed only with their active participation. Intensification of cross-border cooperation on Turkish-Caucasian border and Russian-Georgian border will determine the scale and scope of a Turkish-Russian regional cooperation in the Caucasus. Georgia, Armenia and Nakhitchevan, across whose territories ran vital north-south and east-west roads and railways and which laid in the past in the way of intercontinental conquests, will fully developed their potential in an open and integrated space.

Enlarging the region and redefining the centrality of South Caucasus

The strengthening of the connections between the Caucasus and Turkey by enhancing cross-border cooperation will anchor these states to Turkey and foster a sub-regional integration involving southern Russia. In other words, efforts at bridging Turkey to Russia through the Caucasus, by linking the former to the traditional Caucasian infrastructure will replace South Caucasus in a central position.

The Caucasus has the potential to become a land bridge between Turkey and Russia. Being perceived as a buffer zone has proved very harmful. Georgia, Armenia, Nakhitchevan and the Eastern Azerbaijan can be at the heart of an economically attractive region enlarged to South Russia (Rostov and Krasnodar territories) and to Eastern Turkey (Eastern Anatolia and Eastern Black Sea regions).

The development of a cross-border cooperation in on NATO's South Eastern border

It is possible to view the Turkish-Caucasian border as a link between countries through economic or human exchanges. The amount of pragmatism existing in the region, if sustained by political processes, can open room for the development of cross-border cooperation. The cross-border regionalism, which has flourished in the past two decades, beginning in the heartlands along the western border of Germany, and has taken new steps in the 1990s in response to the opening of the Iron Curtain, can be potentially applied to the Caucasian borderlands. The challenge ahead is to transform old fronts into borders, secured through trade and human interactions. Cross-border cooperation will be a revenge the geography and the triumph of peoples over history.

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Energy Information Administration
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Banque Mondiale, Initiatives régionales – Caucase du Sud
<http://www.worldbank.org>

Banque Européenne pour la Reconstruction et le Développement
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