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Armenia, Azerbaijan, and Georgia: Political Developments and Implications for U.S. Interests

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CONTENTS

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SUMMARY

The United States recognized the independence of all the former Soviet republics by the end of 1991, including the South Caucasus states of Armenia, Azerbaijan, and Georgia. The United States has fostered these states' ties with the West, including membership in the Organization on Security and Cooperation in Europe (OSCE) and NATO's Partnership for Peace (PFP), in part to end the dependence of these states on Russia for trade, security, and other relations. The United States pursued close ties with Armenia to encourage its democratization and because of concerns by Armenian-Americans and others over its fate. Close ties with Georgia have evolved from U.S. contacts with former Soviet Foreign Minister Eduard Shevardnadze, Georgia's president for the last decade. Growing U.S. private investment in Azerbaijan's oil resources strengthened U.S. interest there. The United States has been active in diplomatic efforts to end conflicts in the region, many of which remain unresolved.

Faced with calls in Congress and elsewhere that the Administration develop policy for assisting the new independent states (NIS) of the former Soviet Union, then-President Bush proposed the FREEDOM Support Act in early 1992. Signed into law in 1992, P.L. 102-511 authorized funds for the NIS for humanitarian needs, democratization, creation of market economies, trade and investment, and other purposes. Sec. 907 of the Act prohibited most U.S. government-to-government aid to Azerbaijan until its ceases blockades and other offensive use of force against Armenia. This provision was partly altered over the years to permit humanitarian aid and democratization aid, border security and customs support to promote non- proliferation, Trade and Development Agency aid, Overseas Private Investment Corporation insurance, Eximbank financing, and Foreign Commercial Service activities. The current Bush Administration appealed for a national security waiver of the - prohibitions on aid to Azerbaijan, in consideration of Azerbaijan's assistance to the international coalition to combat terrorism. In December 2001, Congress passed a FY2002 appropriations bill that authorizes the President to waive Sec. 907 under certain conditions through December 2002. President Bush exercised his waiver authority on Jan. 25, 2002. In the South Caucasus, U.S. policy goals have been to buttress the stability and independence of the states through multilateral and bilateral conflict resolution efforts and to provide humanitarian relief. U.S. aid has also supported democratization, free market reforms, and U.S. trade. The Bush Administration supports U.S. private investment in Azerbaijan's energy sector as a means of increasing the diversity of world energy suppliers, and encourages building multiple oil pipeline routes to world markets. In the aftermath of the September 11 terrorist attacks in the United States, the three South Caucasus countries have expressed support for the U.S.-led operations in Afghanistan and campaign against the Al-Qaeda terrorist organization. U.S. Defense Secretary Rumsfeld visited all three countries in mid-December 2001. In February 2002, the Bush Administration announced plans to provide military aid and trainers to Georgia to help Georgian authorities fight guerrilla groups, linked with international terrorist organizations, in the Pankisi Gorge region of the country.

MOST RECENT DEVELOPMENTS

On March 11, 2002, President Bush announced plans to "send up to 150 (U.S.) military trainers to prepare Georgian soldiers to re-establish control" over Georgia's Pankisi Gorge region, near the Russian Border. U.S. officials have claimed that dozens of Afghan fighters, including al-Qaeda members, have infiltrated this region in Georgia and elsewhere in recent months. The Defense Department is finalizing plans for the program, which will reportedly include $64 million in weapons and equipment. The first U.S. Special Forces team is expected to arrive in Georgia by the end of March and the training program is expected to last at least six months. U.S. and Georgian officials say that U.S. forces will not be sent into the Pankisi Gorge region to conduct anti-terrorist operations themselves. Russian President Putin has expressed support for the U.S. plan in spite of some Russian concerns about a U.S. military presence in Georgia. Russia has long considered the Pankisi Gorge to be a haven for Chechen separatist guerrillas.

On January 25, 2002, President Bush exercised his authority to waive Section 907 of the FREEDOM Support Act, thereby lifting restrictions on U.S. assistance to Azerbaijan for the first time since they were established in 1992. According to the White House, the waiver clears the way for deeper cooperation with Azerbaijan in fighting global terrorism. Congress authorized the President to waive the restrictions in the Foreign Operations Appropriations Act for FY2002 (P.L. 107-115). The waiver of Sec. 907 was conditioned on a determination by the President that U.S. assistance to Azerbaijan would support U.S. efforts to counter international terrorism, support the operational readiness of U.S. and allied forces to counter terrorism, enhance Azerbaijan's border security, not be used for offensive purposes against Armenia, and not undermine efforts to reach a peaceful settlement to the conflict between Azerbaijan and Armenia.

BACKGROUND AND ANALYSIS

The Caucasus States: Basic Facts

Area: The region is slightly larger than Syria: Armenia is 11,620 sq. mi.; Azerbaijan is 33,774 sq. mi.; Georgia is 26,872 sq. mi.
Population: 17.4 million, similar to Australia; Armenia: 3.8 m.; Azerbaijan: 8.1 m.; Georgia: 5.5 m. (World Bank estimates for 2001)
GDP: $10.2 billion; Armenia: $1.9 b.; Azerbaijan: $5.3 b.; Georgia: $3.0 b. (World Bank estimates for 2000)

Armenia, Azerbaijan, and Georgia are located in the South Caucasus region of the former Soviet Union. This region borders Turkey, Iran, the Black and Caspian Seas, and Russia's northern slopes of the Caucasus Mountains (termed the North Caucasus). Historically, the South Caucasus states served as a north-south and east-west trade and transport "land bridge" linking Europe to the Middle East and Asia, over which the Russian Empire and others at various times endeavored to gain control. In ancient as well as more recent times, oil and natural gas resources in Azerbaijan attracted outside interest. While Armenia and Georgia can point to past periods of autonomy or self-government, Azerbaijan was not independent before the 20th century. After the Russian Empire collapsed in 1917, all three states declared independence, but by early 1921 all had been re-conquered by Russia's Red (Communist) Army. They regained independence when the Soviet Union collapsed in late

1991. (For background, see CRS Report RS20812, *Armenia Update*; CRS Report 97-522, *Azerbaijan*; and CRS Report 97-727, *Georgia*.)

Obstacles to Peace and Independence

In the ten years since achieving independence, the South Caucasus states have had difficult experiences in developing fully sovereign and independent states and robust democratic and free market systems. Persistent regional conflicts further undermine these efforts.

Political Situation

Armenia. Armenia appeared somewhat stable until 1998. Then-President Levon Ter-Petrosyan had been effective in orchestrating a major victory for his ruling and other pro-government parties in 1995 legislative races, in obtaining approval for a new constitution granting him enhanced powers, and in orchestrating his reelection in 1996. Nonetheless, he was forced to resign in February 1998, reporting that his endorsement of OSCE peace proposals had not been supported by others in his government. Former Prime Minister Robert Kocharyan won March 1998 presidential elections. Armenia's last parliamentary elections were held in May 1999, and produced a plurality (61 out of 131 parliamentary seats) for the ruling Unity bloc coalition. Illustrating the ongoing challenges to stability faced by Armenia, on October 27, 1999, gunmen entered the legislature and opened fire on deputies and officials, killing Prime Minister Vazgen Sarkisyan and Speaker Karen Demirchyan, and six others. The killings may have been the product of personal and clan grievances. Abiding by the constitution, the legislature met and appointed Armen Khachatryan as speaker (a member of the ruling Unity bloc), and Kocharyan named Sarkisyan's brother the new prime minister. Political infighting intensified until May 2000, when Kocharyan appointed former Soviet dissident Andranik Margaryan the new prime minister. Kocharyan has co-opted several opposition party officials into his government in order to increase political stability. He has announced that he will run again in the 2003 presidential election, which will take place alongside the next parliamentary elections. (See also CRS Report RS20812, *Armenia Update*.)

Azerbaijan. Azerbaijan has had three presidents and other acting heads of state since independence, and has suffered several coups or attempted coups. A constitutional referendum in 1995 granted Azerbaijani President Heydar Aliyev sweeping powers. He has concentrated power in his office, arrested many of his opponents, and taken other measures to keep the opposition weak. Aliyev's health problems and age (78) have raised the question of political succession. Observers believe he is grooming his son Ilkham to be his successor; in November 2001, the ruling New Azerbaijan Party elected Ilkham to be deputy party chairman. However, President Aliyev maintains that he will stand for re-election in 2003. Economic hardship and repressive policies have diminished his popularity. The 1995 legislative and 1998 presidential elections were marred by irregularities, according to international observers. In late June 2000, the Parliamentary Assembly of the Council of Europe (PACE) approved Azerbaijan's membership, conditioned on its compliance with commitments, including holding a free and fair legislative election. OSCE and Council observers to the November 5, 2000, legislative election judged it "seriously flawed," though they said it showed some progress compared to previous elections; the U.S. Helsinki

Commission differed with this assessment, seeing virtually no progress. Problems included the disqualification of most opposition candidates seeking to run in single constituency races, ballot-box stuffing, and irregular vote tabulation. Although international observers also judged January 2001 legislative run-off elections as seriously flawed, PACE admitted both Azerbaijan and Armenia as members later in the month. In January 2002, PACE adopted a resolution that criticized Azerbaijan's human rights record and called on Azerbaijan to release over 40 political prisoners.

Georgia. Georgia experienced political instability during the early 1990s, and a fragile stability in the second half of the decade. President Shevardnadze has survived several coup attempts and has prevailed over most political rivals both within and outside of his Citizens' Union Party (CUG). According to some critics, U.S. policy has relied too heavily on personal ties with Shevardnadze (and with Aliyev in Azerbaijan), whose successions could bring instability and setbacks to U.S. interests. The OSCE reported that legislative races in October-November 1999 in Georgia appeared mostly fair, but a lack of transparency in the electoral law and irregularities in voting marred full compliance with OSCE standards. In the April 2000 presidential elections, Shevardnadze received 80% of 1.87 million votes cast. The OSCE reported that the election did not meet its standards, reporting such problems as government aid to the incumbent, biased state media, non-uniform and non-transparent vote counting and tabulation, and ballot box stuffing. Shevardnadze's age (73) and stated intention not to seek another term in 2005 have fueled speculation about possible successors, although no obvious candidate has yet emerged. Shevardnadze has supported a proposal to reinstate a prime minister position, which, if enacted, may reduce somewhat the powers of the presidency.

Along with unemployment and poverty, corruption is viewed by the Georgian public as a leading concern. In August 2001, the shooting death of a popular television anchor, widely thought to be a political assassination, fanned public outrage at the state of organized crime and possible government involvement in criminal activities. In late 2001, some members of the government resigned in protest of the lack of progress on economic reforms and anti-corruption measures. On November 1, Shevardnadze fired his entire cabinet in the aftermath of massive public rallies protesting a police raid on a television station. He has refused to step down from power himself, as some demonstrators have called for. The new government has focused on increasing security in the unruly Pankisi Gorge region (neighboring Chechnya), but with little success. In early 2002, the Bush Administration announced plans to provide military assistance to train and equip Georgian units for counter-insurgency operations in the Pankisi Gorge.

Regional Tensions and Conflicts

U.S. and international efforts to foster peace and the continued independence of the South Caucasus states face daunting challenges. The region has been the most unstable in the former Soviet Union in terms of the numbers, intensity, and length of its ethnic and civil conflicts. The ruling nationalities in the three states are culturally rather insular and harbor various grievances against each other. This is particularly the case between Armenia and Azerbaijan, where discord has led to the virtually complete displacement of ethnic Armenians from Azerbaijan and vice versa. The main languages in the three states are mutually unintelligible (also, those who generally consider themselves Georgians – Kartvelians, Mingrelians, and Svans – speak mutually unintelligible languages). Few of the region's

borders coincide with ethnic populations. Attempts by territorially-based ethnic minorities to secede are primary security concerns in Georgia and Azerbaijan. Armenia and Azerbaijan view NK's status as a major security concern. The three major secessionist areas — NK, Abkhazia, and South Ossetia — have failed to gain international recognition, and receive major economic sustenance from, respectively, Armenia, Russia, and North Ossetia. Also, Georgia's Ajaria region receives backing from Russia for its autarchic stance toward the Shevardnadze government.

The South Caucasus states, because of ethnic conflicts, have not yet been able to fully partake in peace, stability, and economic development some ten years after the Soviet collapse, some observers stress. Countries are faced with on-going budgetary burdens of arms races and caring for refugees and displaced persons. Other costs of ethnic conflict in the region include threats to bordering states of widening conflict and economic decline, and the inability of the region or outside states to take optimal advantage of energy resources or trade and transport networks.

Nagorno Karabakh Conflict. Since 1988, the separatist conflict in Nagorno Karabakh (NK) has resulted in 15,000 deaths, about 1 million Azerbaijani refugees and displaced persons, and about 300,000 Armenian refugees. About 20% of Azerbaijan, including NK, is controlled by NK Armenian forces. Various mediators have included Russia, Kazakhstan, Iran, the United Nations, and the OSCE. The OSCE began the "Minsk Group" talks in June 1992. A U.S. presidential envoy was appointed to these talks. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on July 27, 1994 (and reaffirmed a month later). Moscow talks were held by the sides, with token OSCE representation, along with Minsk Group talks. With strong U.S. backing, the OSCE at its December 1994 Budapest meeting agreed to send OSCE peacekeepers to the region under U.N. aegis if a political settlement could be reached. Russia and the OSCE merged their mediation efforts. The United States, France, and Russia co-chair meetings of the Minsk Group.

A new round of peace talks opened in Moscow in 1997. The presidents of Azerbaijan and Armenia recognized a step-by-step peace proposal as a basis for further discussion, leading to protests in both countries and to Ter-Petrosyan's forced resignation. New Armenian Foreign Minister Varden Oskanyan instead called for the withdrawal of NK forces from areas of Azerbaijan as part of a simultaneous and comprehensive settlement of NK's status that excluded it as part of Azerbaijan. Azerbaijan rejected a new Minsk Group proposal in November 1998 embracing elements of a comprehensive settlement, citing vagueness on the question of NK's proposed "common state"status. At U.S. urging, Kocharyan and Aliyev met in April 1999 and agreed to stepped-up presidential talks. The October 1999 assassinations of Armenian political leaders set back the peace process.

In 2001, the two presidents met in Paris on January 26 and March 4-5 and in Key West, Florida, on April 3-6, 2001. In Key West, no documents were signed and the two presidents talked mainly through intermediaries. By some accounts, the sides discussed elements of a new fourth peace plan that may include territorial concessions and the establishment of land corridors. Former U.S. Special Negotiator for NK and Minsk Group co-chairman Carey Cavanaugh stated on April 16 that there was "a potential for reaching peace this year." Indicating the Administration's high-level concern, the two Presidents flew to Washington

D.C. after the talks and each met with President Bush, who reportedly highlighted U.S. support for settling the conflict and facilitating economic development (including Caspian energy) and regional stability (including Georgia's). Talks planned for June in Geneva were postponed, however. President Aliyev in July 2001 assured the co-chairs that Azerbaijan remained committed to a peaceful settlement. In the aftermath of the September 11 terrorist attacks, international mediators have emphasized renewed commitment to reach a political settlement. New U.S. Special Negotiator Rudolf Perina has said that the new international environment resulting from the anti-terrorism campaign has increased the importance of resolving regional conflicts and restoring stability. In March 2002, the presidents of Armenia and Azerbaijan agreed to appoint personal representatives, who will meet regularly to discuss options on ending the conflict. (See also CRS Issue Brief IB92109, *Armenia-Azerbaijan Conflict*.)

Civil and Ethnic Conflict in Georgia. Several of Georgia's ethnic minorities stepped up their dissident actions, including separatism, in the late 1980s and early 1990s. South Ossetians in 1989 called for joining their territory with North Ossetia in Russia or for independence. Repressive efforts by former Georgian President Gamsakhurdia triggered conflict in 1990, reportedly leading to about 1,500 deaths and 50,000 displaced persons, mostly ethnic Georgians. In June 1992, former Russian President Yeltsin brokered a cease-fire, and a predominantly Russian military "peacekeeping" force has been stationed in South Ossetia (currently numbering about 530). A coordinating commission composed of OSCE, Russian, Georgian, and North and South Ossetian emissaries was formed to promote a settlement of the Georgian-Ossetian conflict. Rapprochement remains elusive. South Ossetia held presidential elections on December 7, 2001, which were not recognized by Georgian authorities or international organizations.

Abkhazia. In late 2001, the Abkhaz conflict heated up after remaining dormant for several years. In July 1992, the Abkhaz Supreme Soviet declared its effective independence from Georgia. This prompted Georgian national guardsmen to attack Abkhazia. In October 1992, the U.N. Security Council (UNSC) approved the first U.N. observer mission to a NIS state, termed UNOMIG, to help reach a settlement. UNOMIG's mandate has been continuously extended and currently runs through July 2002. In September 1993, Russian and North Caucasian "volunteer" troops that reportedly made up the bulk of Abkhaz separatist forces broke a cease-fire and quickly routed Georgian forces. The U.N. sponsored Abkhaz-Georgian talks, with the participation of Russia and the OSCE, leading to a cease-fire. In April 1994, the two sides signed framework accords on a political settlement and on the return of refugees. A Quadripartite Commission was set up to discuss repatriation, composed of Abkhaz and Georgian representatives and emissaries from Russia and the U.N. High Commissioner for Refugees. In May 1994, a cease-fire was signed by Georgia and Abkhazia, providing for Russian troops (acting as CIS "peacekeepers") to be deployed in a security zone along the Inguri River that divides Abkhazia from the rest of Georgia. *The Military Balance* estimates that about 1,700 Russian "peacekeepers" are deployed. The conflict resulted in about 10,000 deaths and over 200,000 refugees and displaced persons, mostly ethnic Georgians.

The U.S. Special Negotiator for Regional Conflicts works with the U.N. Secretary General, his Special Representative (currently Dieter Boden), and other Friends of Georgia (France, Germany, Russia, the United Kingdom, and Ukraine) to facilitate a peace settlement. There are 107 UNOMIG military observers as of January 2002, including two U.S. personnel.

The UNSC agreed that cooperation with the CIS (Russian) forces was a reflection of trust placed in Russia. Under various agreements, the Russian "peacekeepers" are to respond to UNOMIG reports of ceasefire violations, carry out demining, and provide protection for UNOMIG's unarmed observers. After a hiatus of two years, U.N.-sponsored peace talks were reconvened in mid-1997. In late 1997, the sides agreed to set up a Coordinating Council to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. Coordinating Council talks and those of the Quadripartite Commission have been supplemented by direct discussions between Abkhaz and Georgian representatives. Sticking points between the two sides have included Georgia's demand that displaced persons be allowed to return to Abkhazia, after which an agreement on broad autonomy for Abkhazia may be negotiated. The Abkhazians have insisted upon recognition of their effective independence as a precondition to large-scale repatriation. Moreover, an upsurge in fighting in late 2001 shifted international focus to crisis management rather than the promotion of a political settlement.

Clashes in October 2001 in the Kodori Gorge region of Abkhazia, resulting in approximately 75 deaths, revived the threat of renewed violent conflict between Georgian forces and Abkhaz separatists backed by Russia. A U.N. helicopter was shot down by a missile on October 8, killing all nine persons on board; the assailants remain unknown. Abkhaz officials claim that Georgian irregular forces have been joined by at least 200 Chechen rebels arriving from the border area with Chechnya. Georgian officials deny any direct involvement in the fighting, but mobilized the armed forces to the Abkhaz border. On October 11, the Georgian parliament voted to demand the withdrawal of Russian peacekeeping troops from Abkhazia. In January 2002, the U.N. Secretary-General reported greater calm in the region. On January 17, the two sides agreed to security measures to defuse the potential for armed conflict and build mutual confidence. President Shevardnadze agreed to extend the mandate of the CIS peacekeeping force until June 2002. The Secretary-General pointed to the future possibility of direct negotiations between the two parties. A draft negotiating document being prepared by the U.N. and the Friend of Georgia reportedly calls for Abkhazia to be recognized as "a sovereign entity...within the state of Georgia."

In response to recently-announced U.S. plans to train and equip Georgian security forces for anti-terrorist operations, Abkhaz officials have expressed concerns about the potential for Georgian forces to use the training for operations in Abkhazia.

Economic Conditions, Blockades and Stoppages

The economies of all three South Caucasus states greatly declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remain fragile and subject to outside shocks such as Russia's 1998 financial crisis. Investment in oil and gas resources and delivery systems has fueled economic growth in Azerbaijan in recent years. Armenia's GDP in 2000 was about $3,000 per capita, Azerbaijan's was about $3,000, and Georgia's was about $4,600 (*CIA World Fact Book 2001* estimates, purchasing power parity). Widespread poverty and regional conflict have contributed to high emigration from Armenia, Azerbaijan, and Georgia.

Transport and communications obstructions and stoppages have severely affected economic development in the South Caucasus and stymied the region's emergence as an

East-West and North-South corridor. Since 1989, Azerbaijan has obstructed railways and pipelines traversing its territory to Armenia, and for a time successfully blockaded NK. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports. Turkey has barred U.S. shipments of aid through its territory to Armenia since March 1993. P.L. 104-107 and P.L. 104-208 mandated a U.S. aid cutoff (with a presidential waiver) to any country which restricts the transport or delivery of U.S. humanitarian aid to a third country, aimed at convincing Turkey to allow the transit to U.S. aid to Armenia. According to the U.S. Embassy in Baku, Azerbaijan's poverty-stricken Nakhichevan exclave "is blockaded by neighboring Armenia," severing its "rail, road, or energy links to the rest of Azerbaijan." Iran has at times obstructed bypass routes to Nakhichevan. Georgia has cut off natural gas supplies to South Ossetia. Russia at times has closed its borders with Azerbaijan and Georgia because of conflict in Chechnya. In 1996, the CIS supported Georgia in imposing an economic embargo on Abkhazia, but Russia announced in 1999 that it was lifting most trade restrictions, and a railway was reopened in mid-2000.

Russian Involvement in the Region

Russia has appeared to place a greater strategic importance on maintaining influence in the South Caucasus region than in Central Asia (except Kazakhstan). Russia has exercised most of its influence in the military-strategic sphere, less in the economic sphere, and a minimum in the domestic political sphere, except for obtaining assurances on the treatment of ethnic Russians. Russia has viewed Islamic fundamentalism as a potential threat to the region, but has cooperated with Iran on some issues to contain Turkish and U.S. influence. Russia has tried to stop ethnic "undesirables," drugs, weapons, and other contraband from entering its borders, and to contain the contagion effects of separatist ideologies in the North and South Caucasus. These concerns, Russia avers, has led it to establish military bases in Armenia and Georgia. The states have variously responded to Russian overtures. Armenia has close security and economic ties with Russia, given its unresolved NK conflict and grievances against Turkey. Georgia has objected to Russia's actions related to the conflict in Chechnya, its military bases in Georgia, and its support to Abkhaz separatists. Azerbaijan has been concerned about Russia's ties with Armenia.

Military-Strategic Interests

Russia's armed presence in the South Caucasus is multi-faceted — including military base personnel, "peacekeepers," and border troops. The first step by Russia in maintaining a military presence in the region was the signing of the Commonwealth of Independent States (CIS) Collective Security Treaty by Armenia, Russia, and others in 1992, which calls for mutual defense consultations. Russia prevailed on Georgia and Azerbaijan to join the CIS in 1993, but they withdrew from the collective security treaty in 1999. Russia also secured permission for two military bases in Armenia and four in Georgia. Russian forces help guard the Armenian-Turkish border. The total number of Russian troops has been estimated at about 2,900 in Armenia and 4,000 in Georgia (*The Military Balance 2001-2002*). Another 76,000 Russian troops are stationed nearby in the North Caucasus. In 1993, Azerbaijan was the first NIS to get Russian troops to withdraw, except at the Gabala radar site in northern Azerbaijan. In January 2002, Russia and Azerbaijan resolved their longstanding dispute over

the Gabala station and signed a leasing agreement that would permit up to 1,500 Russian troops to man the site. In January 1999, Georgia assumed full control over guarding its sea borders, and in October 1999, most of the Russian border troops left, except for some liaison officers. Armenia has argued that its Russian bases provide for regional stability by protecting it from attack. Russia has said that it has supplied weapons to Armenia, including S-300 missiles and Mig-29 fighters for air defense, to enhance Armenia's and NK's security. Azerbaijan and Georgia have raised concerns about the spillover effects of Russia's military operations in its breakaway Chechnya region. In December 1999, the OSCE agreed to Georgia's request that it send observers to monitor Georgia's border with Chechnya.

Since the September 11 terrorist attacks in the United States, Russia has stepped up its campaign against separatist rebels in Chechnya, claiming links between them and Osama bin Laden. Georgia has been on the front line of this renewed conflict. Georgia has accepted thousands of Chechen refugees, but long denied the presence of armed rebels among them. Russia officials have criticized Georgia for harboring Chechen militants in the Pankisi Gorge area, which they consider to be a staging ground for the Chechen rebels. They have demanded that Georgia extradite Chechen rebels to Russia. Some Russian officials have threatened military action in Georgia to eliminate the Chechen rebel threat. At the November 29 CIS summit in Moscow, Georgian officials raised complaints about alleged Russian army incursions into Georgia during air attacks on Chechnya. Russian President Putin denied any Russian involvement in the alleged attacks. In January 2002, Russian and Georgian authorities agreed to cooperate on improving border security and on organizing the return of Chechen refugees. Some Russian officials initially opposed U.S. plans to provide military assistance to Georgia, but President Putin gave the plan his backing, calling the effort to fight terrorists in the Pankisi Gorge in Russia's interests. Russia officials claim that al-Qaeda terrorists have infiltrated Georgia and have even speculated that Osama bin Laden may be hiding in the Pankisi Gorge.

Russia's Bases in Georgia. In 1999 Russia agreed to provisions of the adapted Conventional Armed Forces in Europe (CFE) Treaty calling for Russia to reduce weaponry at its bases in Georgia, to close its bases at Gudauta and Vaziani by July 2001, and to discuss closing Russian military bases at Batumi and Akhalkalaki. Russia moved some weaponry from the bases in Georgia to bases in Armenia, raising objections from Azerbaijan. On July 1, 2001, Georgia reported that the Vaziani base and airfield had been turned over by Russia to Georgia. The Russian government, however, reported that it was unable to turn over the Gudauta base by the deadline, ostensibly because it had not had enough time to build weapons warehouses and replacement barracks in Russia, and because fearful Abkhazians had hampered the withdrawal. It proposed that the base be turned into a rehabilitation center for Russian "peacekeepers." Some observers speculated that Russia would use the anti-terrorism issue after September 11 as an excuse not to withdraw from its military bases. However, in November, Russia announced the withdrawal of its forces and equipment from the Gudauta base. The Georgian foreign ministry has questioned some of the terms of closure, such as the continued presence of some 600 Russian troops on the base. With regard to the Batumi and Akhalkalaki bases, Russia has proposed that it would need 14-15 years and $150 million to close them, but might be able to move more quickly if the West paid for the closings. Georgian officials have spoken of a period of 2-3 years for their closure.

Caspian Energy Resources

Russia has tried to play a significant role in future oil production, processing, and transportation in the Caspian Sea region. Russia's oil firm LUKoil has investment stakes in the Azerbaijan International Oil Consortium (AIOC) and other consortiums, and Transneft in an oil pipeline to Russia's Novorossisk Black Sea port. In an effort to increase influence over energy development, Russia's policymakers during much of the 1990s insisted that the legal status of the Caspian Sea be determined before resources could be exploited. Iran and Turkmenistan initially endorsed Russia's view of a "closed sea" or "lake," where resources are commonly exploited. Russia changed its stance somewhat by agreeing on seabed delineation with Kazakhstan in 1998 and with Azerbaijan in January 2001, prompting objections from Iran. In January 2002, Russian and Azerbaijani leaders agreed to cooperate on drawing a median line in the Caspian Sea between the two countries. Russian President Putin criticized Western private investment in energy development in the Caspian region, and appointed a special energy emissary to the region. As part of this new assertiveness, Russian energy firms stepped-up their efforts to gain major influence over Caspian energy resources and routes. In the past year, however, Russian opposition to non-Russian pipeline development has waned, perhaps reflecting improved U.S.- Russian relations. Russian energy firms have expressed interest in investing in construction of the Baku-Ceyhan pipeline project.

The Protection of Ethnic Russians

As a percentage of the population, there are fewer ethnic Russians in the South Caucasus states than in most other NIS. According to the 1989 Soviet census, there were 52,000 ethnic Russians in Armenia (1.6% of the population), 392,000 in Azerbaijan (5.6%), and 341,000 in Georgia (6.3%). These numbers have declined since then. Russia has voiced concerns about the safety of ethnic Russians in Azerbaijan and Georgia. Many observers argue that the issue of protecting the human rights of ethnic Russians is a stalking horse for Russia's military-strategic and economic interests.

The Roles of Turkey, Iran, and Others

The Clinton Administration generally viewed Turkey as able to foster pro-Western policies and discourage Iranian interference in the South Caucasus states, though had some concerns about a Turkish tilt to Azerbaijan in the NK conflict. Critics of Turkey's larger role in the region also caution that the United States and NATO are liable to be drawn by their ties with Turkey into regional imbroglios. Turkey seeks good relations with Azerbaijan and Georgia and some contacts with Armenia, while trying to limit Russian and Iranian influence. Azerbaijan likewise views Turkey as a major ally against such influence, and as a balance to Armenia's ties with Russia. Armenia is a member of the Black Sea Economic Cooperation zone, initiated by Turkey, and the two states have established consular relations. Obstacles to better Armenian-Turkish relations include Turkey's rejection of Armenians' claims of genocide in 1915-1923 and its support for Azerbaijan in the NK conflict, including the border closing. Georgia has an abiding interest in ties with the approximately one million Georgians residing in Turkey and the approximately 50,000 residing in Iran, and has signed friendship treaties with both states. Turkey and Russia are Georgia's primary trade partners. Consistent

with the U.S. focus on the global anti-terror campaign, Turkey has worked with Azerbaijan and Georgia on tripartite cooperation on combating terrorism and international crime.

Iran's interests in the South Caucasus include discouraging Western powers such as Turkey and the United States from gaining influence (Iran's goal of containing Russia conflicts with its cooperation with Russia on these interests), ending regional instability that might threaten its own territorial integrity, and building economic links. A major share of the world's Azerbaijanis reside in Iran (estimates range from 6-12 million), which also hosts about 200,000 Armenians. Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered by limiting trans-Azerbaijani contacts, raising objections among many in Azerbaijan. Azerbaijani elites fear Iranian-supported Islamic extremism and object to Iranian support to Armenia. Iran has growing trade ties with Armenia and Georgia, but its trade with Azerbaijan has declined. To block the West and Azerbaijan from developing Caspian Sea energy resources, Iran has proposed either common control by the littoral states or the division of the seabed into five equal sectors. Iranian warships have challenged Azerbaijani oil exploration vessels in the Caspian Sea. U.S. policy aims at containing Iran's threats to U.S. interests (See CRS Issue Brief IB93033, *Iran*). Some critics argue that if the South Caucasus states are discouraged from dealing with Iran, particularly in building pipelines through Iran, they face greater pressure to accommodate Russian interests. (See also below, *Energy*.)

Among non-bordering states, the United States and European states are the most influential in the South Caucasus in terms of aid, trade, exchanges, and other ties. U.S. and European goals in the region are broadly compatible, involving integrating it into the West and preventing an anti-Western orientation, opening it to trade and transport, obtaining energy resources, and helping it become peaceful, stable, and democratic. The South Caucasus region has developed some economic and political ties with other Black Sea and Caspian Sea littoral states, besides those discussed above, particularly with Ukraine, Romania, Kazakhstan, and Turkmenistan. Azerbaijan shares with Central Asian states common linguistic and religious ties and concerns about some common bordering powers (Iran and Russia). The South Caucasian and Central Asian states have common concerns about terrorist threats and drug trafficking from Afghanistan. Energy producers Kazakhstan, Turkmenistan, and Uzbekistan have considered trans-Caspian transport as a means to get their oil and gas to Western markets. As Central Asia's trade links to the South Caucasus become more significant, it will become more dependent on stability in the region.

Overview of U.S. Policy Concerns

By the end of 1991, the United States had recognized the independence of all the former Soviet republics. The United States opened an embassy in Azerbaijan in March 1992. The United States established close ties with Georgia after Eduard Shevardnadze, formerly pro-Western Soviet foreign minister, assumed power there in early 1992. The United States pursued close ties with Armenia, because of its profession of democratic principles, and concerns by Armenian-Americans and others over its fate. Faced with calls in Congress and elsewhere for a U.S. aid policy for the NIS, then-President Bush sent the FREEDOM Support Act to Congress, signed with amendments into law in October 1992 (P.L. 102-511). Other authorizing language includes the "Silk Road Strategy Act" in Consolidated Appropriations for FY2000 (P.L.106-113), that calls for enhanced policy and aid to the region.

Focusing on the Armenia-Azerbaijan conflict over the breakaway Nagorno Karabakh (NK) region, the FREEDOM Support Act's Sec. 907 prohibits U.S. government-to-government assistance to Azerbaijan, except for nonproliferation and disarmament activities, until the President determines that Azerbaijan has taken "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK." U.S. aid was at first limited to that supplied through international agencies and private voluntary and nongovernmental organizations (NGOs). A provision in P.L. 104-107 eased the prohibition for FY1996, by stating that "assistance may be provided for the Government of Azerbaijan for humanitarian purposes, if the President determines that humanitarian assistance provided in Azerbaijan through NGOs is not adequately addressing the suffering of refugees and internally displaced persons." Further easing was provided for FY1998 by P.L. 105-118, which permitted humanitarian aid, support for democratization, Trade and Development Agency (TDA) guarantees and insurance for U.S. firms, Foreign Commercial Service (FCS) operations, and aid to prevent the spread of weapons of mass destruction. In FY1999 (P.L. 105-277) and thereafter, changes included approval for Overseas Private Investment Corporation (OPIC) activities and Export-Import Bank financing.

Notwithstanding the exceptions, the State Department argued that Sec.907 still restricted aid for anti-corruption and counter-narcotics programs, regional environmental programs, and programs such as good business practices, tax and investment law, and budgeting. The Defense Department argued that Sec. 907 restricted military assistance to Azerbaijan, including for anti-terrorism measures and energy pipeline security. In a letter to the Senate Foreign Relations Committee in 2001, Secretary of State Powell requested a national security waiver for Sec. 907, arguing that it severely constrained the U.S.' ability to provide support to Azerbaijan in the war against terrorism. In December, Congress passed the conference report to H.R. 2506, the FY2002 foreign operations appropriations bill. It included a conditional waiver of Sec. 907 if the President determined that doing so would: support U.S. efforts to counter terrorism; support the operational readiness of U.S. armed forces or coalition partners to counter terrorism; enhance Azerbaijan's border security; not be used for offensive purposes against Armenia; and, not undermine ongoing efforts to negotiate a peaceful settlement between Armenia and Azerbaijan. President Bush invoked the waiver of Sec. 907 on January 25, 2002.

U.S. policy toward the South Caucasus states includes fostering free market democracies and promoting resolution of regional conflicts. Aid for resolution of the NK, Abkhazia, and other regional conflicts supports these goals. The Bush Administration named Ambassador Rufolf Perina to serve as the next Special Negotiator for the NK and Eurasian conflicts. The Special Negotiator is co-chair of the Minsk Group of states mediating the NK conflict and takes part in the Friends of the U.N. Secretary General consultations and efforts of the Secretary General's special representative to settle the Abkhaz conflict. At the invitation of President Bush, Georgian President Shevardnadze visited Washington in early October 2001, and received assurances of continued U.S. support for Georgia's independence and territorial integrity. In mid-December 2001, Defense Secretary Rumsfeld made brief visits to all three countries in order to bolster support for the international anti-terror campaign.

In the wake of the September 2001 terrorist attacks on the United States, U.S. policy priorities have shifted toward the global anti-terrorist response. U.S. - Russian cooperation on many fronts of this effort may carry profound consequences for the South Caucasus region. For example, some observers say that the West has acquiesced to Russia's own

counter-insurgency campaign in Chechnya and to its demands that Georgia help counter the Chechen rebel threat from its side of the border. In this new global environment, some observers point out that developments in the South Caucasus region are largely marginal to the anti-terror campaign and to U.S. interests in general. They suggest that the oil and other natural resources there are not vital to U.S. trade and security and are, in any event, unlikely to be fully developed and available to Western markets for many years. They urge great caution in adopting policies that will heavily involve the United States in a region beset by ethnic and civil conflicts. They are skeptical of arguments that there is a "power vacuum" in the region that the United States must fill.

Other observers believe that the new security situation calls for far more active U.S. policy engagement in South Caucasus. They point to weakness and instability in these states caused by warfare, crime, smuggling, terrorism, and Islamic extremism (in the case of Azerbaijan), requiring sustained and even greater U.S. aid and conflict resolution efforts to contain extremism and bolster independence. Some argue that improved U.S. relations with these NIS would serve to "contain" Russian and Iranian influence, and that improved U.S. ties with Azerbaijan would benefit U.S. relations with other Islamic countries, particularly Turkey and the Central Asian states. Many add that Azerbaijani and Central Asian oil and natural gas deliveries would expand world supplies, making the United States and the West less vulnerable to supply cutoffs in the Middle East. In the aftermath of September 11, the governments of Azerbaijan, Armenia, and Georgia have offered support and assistance to the U.S.-led anti-terror coalition. In February 2002, a senior U.S. diplomat in Georgian claimed that dozens of Afghan fighters had infiltrated the South Caucasus region over the past months. Another U.S. official claimed that there were clear connections between the al-Qaeda network and the Chechen rebels, making them potential targets in the global anti-terrorist campaign.

Aid Overview

FREEDOM Support Act (FSA) Assistance *(in millions)*

	FY2002 Estimate	*FY2003 Request*
Armenia	$90.0	$70.0
Azerbaijan	$43.3	$46.0
Georgia	$89.0	$87.0

Source: State Department

The United States is the largest bilateral aid donor by far to Armenia and Georgia, and Armenia is among the three NIS that have received more than $1 billion in U.S. aid FY1992-FY2000 (the others are Russia and Ukraine). U.S. assistance has included FREEDOM Support Act programs (see box), food aid (U.S. Department of Agriculture), Peace Corps, and some security assistance. Georgian President Shevardnadze has often stated that U.S. humanitarian aid made a critical difference in averting famine in Georgia in the early 1990s and helping it maintain its stability and independence. The United States also supplied critical food and heating oil to Armenia in 1993-1995, and has sent aid focused on ameliorating the impact of the blockades. Armenia and Georgia have regularly ranked among the top world states in terms of per capita U.S. aid, indicating the high level of concern within the Administration and Congress. Foreign Operations Appropriations for FY1998 (P.L. 105-118) created a new South Caucasian funding category and earmarked $250 million of $770 million in NIS aid to this category. FY1999 appropriations (Omnibus Appropriations, P.L. 105-277) sustained this category, with

Congress earmarking $228 million of $847 million in FREEDOM Support Act aid, and in FY2000 and FY2001 (though without an earmark). Besides bilateral aid, the United States contributes to multilateral organizations such as the International Monetary Fund and the World Bank that aid the region. (See also CRS Issue Brief IB95077, *The Former Soviet Union and U.S. Foreign Assistance*.)

While for most of the 1990s the Clinton Administration devoted the bulk of aid to the South Caucasus to urgent humanitarian needs, increasing attention by the late 1990s was given to fostering democratization. U.S. democratization aid includes advice on drafting legislation, training judges, and electoral support. Section 907 restrictions on some support for democratization in Azerbaijan were eased in FY1998 and thereafter.

For FY2002, the House passed H.R. 2506, the Foreign Operations Appropriations bill, on July 24, 2001. The House bill repeated language from previous years establishing a South Caucasus funding category, of which 15% may be devoted to foster peace settlements, especially in the Abkhazia and Nagorno Karabakh regions. Equal earmarks were provided for Armenia and Georgia ("not less than $82.5 million"). The bill repeated language from previous years on exclusions from Section 907 limits on aid to Azerbaijan. The Senate passed its version of H.R. 2506 on October 24, 2001. It earmarked $90 million each in FREEDOM Support Act assistance for Georgia and Armenia. The Senate bill included a waiver of Sec. 907 restrictions on assistance to Azerbaijan (Sec. 599) through the end of December 2002. It added an earmark of $4.6 million in military assistance for Armenia. The conference report for H.R. 2506, passed by the House on December 19 and the Senate on December 20, earmarked $90 million each for Armenia and Georgia, and $4.3 million in military assistance to Armenia. It called for funds (unspecified) to be used for confidence-building measures in support of the resolution of regional conflicts, especially in Abkhazia and Nagorno-Karabakh. It authorized the President to waive Sec. 907 if he determines that aid to Azerbaijan is necessary to support U.S. efforts to counter international terrorism and support U.S. and allied forces, will enhance Azerbaijan's border security, and will not undermine peace efforts in the conflict between Azerbaijan and Armenia. The waiver is valid through December 2002; the President may thereafter extend the waiver on an annual basis if the same conditions are met. The bill included reporting requirements on U.S. aid to Azerbaijan and on the status of peace negotiations between Armenia and Azerbaijan.

U.S. Security Assistance

Besides economic and humanitarian aid, some U.S. security assistance has been provided. The FY1997 Defense Authorization Act (P.L. 104-201) permitted aid for customs and border enhancements to prevent the spread of mass destruction weapons. Sec. 517 of Foreign Operations Appropriations for FY2001 (P.L.106-429) repeated prior year language forbidding use of FREEDOM Support Act aid to enhance military capabilities. In Georgia, the State Department set up a Border Security and Related Law Enforcement Assistance Program. Some of this aid has been used by Georgia to fortify its northern border with Russia and Chechnya. In 1997, a U.S.-Azerbaijan Bilateral Security Dialogue was inaugurated to deal with joint concerns over terrorism, drug trafficking, international crime, and the proliferation of weapons of mass destruction (WMD). The United States committed millions of dollars to facilitate the closure of Russian military bases in Georgia. In October 2000, the Security Assistance Act of 2000 was signed into law, authorizing nonproliferation, export control, border, anti-terrorism, and other security aid for the South Caucasus states and

earmarking such aid for Georgia. The United States has signed many other agreements with the South Caucasus countries on military cooperation, combating WMD proliferation, and securing nuclear materials.

The Azerbaijani and Georgian presidents have stated that they want their countries to join NATO; much greater progress in military reform, however, will likely be required before they are considered for membership. All three states joined NATO's Partnership for Peace (PFP) and Azerbaijan and Georgia have actively participated in PFP exercises. Azerbaijani and Georgian troops serve as peacekeepers in the NATO-led operation in Kosovo.The "Cooperative Partner" PFP amphibious assault landing and natural disaster response exercises were held on Georgia's Black Sea coast in June 2001, involving 4,000 mostly U.S., Georgian, and Turkish troops. Sec. 907 had prohibited much U.S. PFP aid to Azerbaijan (including FMF), and by U.S. policy similar aid has not been provided to Azerbaijan's fellow combatant Armenia. Both countries are receiving some U.S. PFP aid for democratizing their military establishments. The presidential waiver of Sec. 907 in FY2002 has enabled a modest increase in the amount of U.S. security assistance to Azerbaijan, focused on border security and anti-terror programs. In February 2002, the Bush Administration announced plans to provide up to $64 million in training and equipment to Georgia, including the dispatch of 150-200 U.S. special forces to train Georgian anti-terrorist units for at least a six-month period. The United States has already delivered ten unarmed helicopters to Georgia. U.S. officials say the U.S. forces will be engaged in training only, and not in anti-terrorist operations in the Pankisi Gorge. They also say there are no plans to establish a permanent U.S. military presence or military base in Georgia.

U.S. Support for Economic Reforms

The development of expertise for economic reform in Armenia has been fostered through the Center for Economic Policy, Research, and Analysis (CEPRA), set up in FY1994. U.S. aid to Georgia has included setting up a business service center in Tbilisi to encourage small business development, and technical aid for monetary and fiscal reform, including through the FY1996 creation of a Center for Economic Policy Analysis and Reform (CEPAR). A U.S.-Azerbaijan Tast Force on Economic Development was set up in January 2000, and a U.S.-Armenia Task Force on Economic Cooperation held its first meeting in March 2001. Both these task forces bring together high-level economic officials and are headed on the U.S. side by the Coordinator of Assistance to the NIS. Congress earmarked $15 million for FY1996 for the creation of a Trans-Caucasus Enterprise Fund, emphasizing its interest in providing capital resources and technical assistance to private enterprise. Congress provided an added $10 million in FY1997, but granted a Clinton Administration request that, as alternatives to creating the Fund, allocations might be transferred to other funding groups or to OPIC to support privatization.

Trade and Investment

The Bush Administration and others maintain that U.S. support for privatization and the creation of free markets directly serve U.S. national interests by opening new markets for U.S. goods and services, and sources of energy and minerals. Among U.S. economic links with the region, bilateral trade agreements providing for normal trade relations for products have been signed and entered into force with all three states. Bilateral Investment Treaties (BIT) providing national treatment guarantees have been signed (that with Azerbaijan has

been submitted to the U.S. Congress for advice and consent). OPIC has signed agreements that are in force with all three states on financing and insuring U.S. private investment. The Export-Import Bank has signed agreements with Armenia and Georgia for financing U.S. exports. Peace Corps volunteers teach small business development, English language skills, and health awareness in Armenia. With U.S. support, Georgia was formally admitted to the World Trade Organization in June 2000, the second NIS (after Kyrgyzstan) to gain admission.

P.L.106-476, signed into law on November 9, 2000, stated that the President may determine that Title IV should no longer apply to Georgia and proclaim that its products will receive permanent nondiscriminatory (normal trade relations - NTR) treatment. Citing "due regard for the findings of the Congress," President Clinton on December 29, 2000, determined and proclaimed such permanent normal trade relations. Armenia and Azerbaijan currently receive conditional NTR treatment subject to a semi-annual presidential determination (see also CRS Issue Brief IB93107, *Normal-Trade-Relations*). On January 6, 2002, the *Washington Post* reported that the Bush Administration wants Congress to allow nine CIS countries, including Armenia and Azerbaijan, to graduate from trade restrictions as a reward for assisting in the fight against terrorism.

Energy Resources and Policy. The U.S. Energy Department reports estimates of 11 billion barrels of proven oil reserves, and estimates of 11 trillion cubic feet of proven natural gas reserves in Azerbaijan. Many problems remain to be resolved before Azerbaijan can fully exploit and market its energy resources, including project financing, political instability, ethnic and regional conflict, and the security and construction of pipeline routes. The recent conflict in Afghanistan is likely to increase regional insecurity, which could affect some or all of the Caspian Sea energy projects.

U.S. policy goals regarding energy resources in the Central Asian and South Caucasian states have included supporting their sovereignty and ties to the West, supporting U.S. private investment, breaking Russia's monopoly over oil and gas transport routes by encouraging the building of pipelines that do not traverse Russia, promoting Western energy security through diversified suppliers, assisting ally Turkey, and opposing the building of pipelines that transit Iran. In 1998, the Clinton Administration set up the post of Special Advisor to the President and the Secretary of State for Caspian Basin Energy Diplomacy to coordinate policies and programs of TDA, OPIC, the Department of Energy, and other agencies (this post was retained by the Bush Administration).

On May 17, 2001, President Bush announced his national energy policy, in the form of a report issued by Vice President Cheney. It recommended that the President direct U.S. agencies to support building the Baku-Ceyhan oil pipeline, expedite use of the pipeline by oil companies operating in Kazakhstan, support constructing a Baku-Ceyhan natural gas pipeline to export Azerbaijan's Shah Deniz gas, and otherwise encourage the Caspian regional states to provide a stable and inviting business climate for energy and infrastructure development. Administration officials maintain that fundamental U.S. interests in Caspian energy pipeline development have not changed in the post-September 11 environment.

U.S. companies are shareholders in about one-half of twenty international production-sharing consortiums, including the Azerbaijan International Operating Company (AIOC), formed to exploit Azerbaijan's oil and gas fields. In 1995, Aliyev and the AIOC decided to

transport "early oil" (the first and lower volume of oil from AIOC and other fields) through two Soviet-era pipelines in Georgia and Russia to ports on the Black Sea. The capacity of each of these pipelines is around 100-115,000 barrels per day. The trans-Russia "early oil" pipeline began delivering oil to the port of Novorossiisk in late 1997. Instability where the pipeline crosses Russia's Chechnya region halted oil flows in mid-1999, but a detour around Chechnya was completed in April 2000. The trans-Georgian pipeline began delivering oil to Black Sea tankers in early 1999.

The Clinton Administration launched a campaign in late 1997 stressing the strategic importance of the Baku-Ceyhan route as part of a "Eurasian Transport Corridor." In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. In October 2000, an oil pipeline construction group, the Main Export Pipeline Company (MEPCO) was formed, composed of the Azerbaijani State Oil Company (SOCAR; with a 50% stake), BP-Amoco (25.41%), Unocal (7.48%), and others. MEPCO's basic engineering feasibility study was completed in May 2001. Estimates suggest that the 1,000-mile pipeline (carrying half a million barrels per day) may cost $2.7-$3 billion and be completed in 2005. BP-Amoco leads the pipeline project. BP-Amoco has also led negotiations between Azerbaijan and Turkey on building a gas pipeline, estimated to cost $1 billion, parallel to the planned Baku-Ceyhan oil pipeline. On September 29, 2001, Georgia and Azerbaijan signed an accord to transport and sell natural gas from Azerbaijan's Shah Deniz offshore field to Georgia and on to Turkey.

Ships operated by BP-Amoco conducting a survey of the Araz-Alov-Sharg oilfields in the south Caspian Sea off Azerbaijan's coast on July 23, 2001, were buzzed by Iranian military aircraft and ordered by an Iranian gunboat to leave the area. BP-Amoco suspended its survey in the field. In August, the State Department expressed support for Azerbaijan in its efforts to explore Caspian oil resources and called Iran's threatening actions against two BP oil research ships "provocative" and "counter-productive to efforts to achieve a peaceful resolution of Caspian boundary disputes." Additional border violations have since been reported.

Congressional interest has been reflected in several hearings on the South Caucasus and Central Asia. Conferees on Omnibus Appropriations for FY1999 (P.L. 105-277) stated that they "believe that the development of energy resources in the Caspian Sea region is important for the economic development of the countries involved, as well as regional stability," endorsed "alternatives to a pipeline through Iran," and supported "an east-west energy corridor to assist in developing the region's energy resources." The "Silk Road Act" language in P.L. 106-113 authorized enhanced policy and aid to support economic development and transport needs in the South Caucasus and Central Asia. The Europe Subcommittee of the House International Relations Committee held a hearing on U.S. interests in the Caucasus and Caspian region on October 10, 2001. Congressional action to lift aid sanctions on Azerbaijan may provide a boost to energy development in the South Caucasus.