

Georgia-Russia: Learn to Live like Neighbours

I. OVERVIEW

Three years after their August 2008 war over the South Ossetia region, tension is growing again between Russia and Georgia, and talks are needed to restore stability and create positive momentum in a situation that is fragile and potentially explosive. Diplomatic relations are suspended, and the two have only started limited negotiations, with Swiss mediation, on Russia's World Trade Organisation (WTO) membership. Yet, they share interests in improving regional security, trade and transport and should start discussions on these rather than continuing to exchange hostile rhetoric that only makes renewed dialogue more difficult.

Lack of contact has increased distrust since the fighting ended. For Georgia, Russia is an occupier who is undermining its sovereignty and security. While almost the entire international community regards South Ossetia and Abkhazia as parts of sovereign Georgia, Russia recognised both as independent shortly after the war. Moscow maintains an estimated 7,000 to 9,000 combat, security, and border forces in those two territories and is building and refurbishing permanent military bases there, in violation of the ceasefire brokered by the EU presidency in 2008. Some 20,000 persons displaced that year have been prevented from returning home, and casualties still occur along the administrative border lines (ABLs).

The Geneva negotiations set up under the ceasefire to create a more productive security environment and address humanitarian issues, have made only modest headway, including the setting up of an Incident Prevention and Response Mechanism (IPRM) between Georgia, Russia, the de facto authorities in South Ossetia and Abkhazia and the European Union Monitoring Mission (EUMM) for information exchange on security incidents. The sides have been unable to agree, however, on the larger issues that the Geneva negotiations were intended to address, such as the return of displaced persons, and could easily collapse in the present toxic atmosphere.

Georgia says it has proof of Russian security services involvement in a series of bombings on its territory. Moscow denies this, while some politicians and officials accuse Georgia, with little evidence, of re-building its military to threaten Abkhazia and South Ossetia and aiding radical Islamist insurgents in Russia. The Georgian government has embarked on an effort to engage with people from Rus-

sia's North Caucasus, but to avoid provocation, it should do this in cooperation with, rather than in spite of, Moscow. The bilateral dispute is highly personalised, with Russia's leadership saying it will not engage with President Saakashvili. The effects are also felt in what should be unrelated spheres. Georgia is blocking Russia's bid to join the WTO. Espionage arrests in Georgia are fostering a domestic atmosphere of suspicion less than a year before 2012 parliamentary elections.

The two sides communicate mainly through Swiss diplomats. Bern already mediates talks on the WTO dispute and is prepared to facilitate discussions on other issues, like trade, transport or security. Georgia and Russia have signed agreements on transport and energy since the war, so there is a basis for cooperation on which to build even if political willingness is limited. To take advantage of any opportunities and begin the long process to normalise ties, Moscow and Tbilisi should:

- ❑ engage in direct talks, without preconditions, on a range of subjects, with mediation, if needed, by a mutually acceptable third party. This should complement, not substitute for, the existing Geneva process; and
- ❑ de-escalate rhetoric about bombings and support for terrorism and agree to joint investigations or ones carried out by third parties.

Meanwhile, to improve security in and around Abkhazia and South Ossetia, the international community should:

- ❑ continue to press Moscow to withdraw to positions held before the 2008 conflict, facilitate the return home of displaced persons and allow the EUMM full access to South Ossetia and Abkhazia; and
- ❑ encourage the parties to exchange information on their security forces and their movements in areas near the ABLs.

II. THE REALITY ON THE GROUND

A. TOTAL MUTUAL DISTRUST

The August 2008 war, and Moscow's subsequent recognition of Abkhazia's and South Ossetia's independence, is the main source of dispute that sustains deep distrust between Georgia and Russia. Although military clashes ended soon after the 12 August and 8 September 2008 ceasefire agreements were signed, and violent incidents and arrests of civilians along the ABLs with South Ossetia and Abkhazia have fallen off considerably, casualties still occur. On 8 April 2011, a Russian border guard and two Georgians died in a shoot-out in Gali.¹ On 18 May, two Georgian civilians were wounded while straying across the ABL with South Ossetia.²

Significant parts of the ceasefire agreements, brokered by President Nicolas Sarkozy when France was in the EU Presidency, remain unfulfilled.³ Russia has not upheld its commitments to reduce troops to the pre-8 August 2008 levels, withdraw from previously unoccupied areas and support regular access for international monitoring and humanitarian assistance missions to South Ossetia and Abkhazia. It consistently answers international criticism by referring to "new realities", yet it is practically alone in recognising the two entities as independent.⁴ It finances over 99 per cent of South Ossetia's budget and more than half of Abkhazia's. More than 20,000 ethnic Georgians displaced by the war have been prevented from returning to their homes in South Ossetia in what the Parliamentary Assembly of the Council of Europe (PACE) has characterised as ethnic cleansing.⁵

¹ The Russians say the Georgians were working for the interior ministry; Georgia says they were criminals. "Russian MFA: Tbilisi wants to destabilize Gali", Civil Georgia, 11 April 2011.

² "Two civilians wounded at S. Ossetia administrative border", Civil Georgia, 18 May 2011.

³ See Crisis Group Europe Reports N°205, *South Ossetia: The Burden of Recognition*, 7 June 2010; N°202, *Abkhazia: Deepening Dependence*, 26 February 2010; and N°53, *Georgia-Russia: Still Insecure and Dangerous*, 22 June 2009. Russian officials call the ceasefire agreements the "Sarkozy-Medvedev" agreements. The Georgians call them the "EU-mediated Russia-Georgia" agreements, or the "Medvedev-Sarkozy-Saakashvili" agreements.

⁴ The others to recognise Abkhazia and South Ossetia were Venezuela, Nicaragua and the world's tiniest country by population, Nauru. On 12 July 2011, Vanuatu's foreign minister reconfirmed his country's recognition of Abkhazia.

⁵ "The Assembly condemns Russia and the de facto authorities of South Ossetia for not having brought resolutely to a halt and seriously investigated the ethnic cleansing of ethnic Georgians that by all accounts took place in South Ossetia during and after the war, and for not having brought the perpetrators to justice.

Georgia has lost much hope of EU intervention on its behalf. The EUMM was deployed quickly,⁶ but initial talk of suspending negotiations on a new EU-Russia Agreement to replace the 1994 Partnership and Cooperation Agreement (PCA) due to Russia's role in the conflict quieted, and Brussels is again seeking ways to develop a comprehensive framework for its relations with Moscow. Even previously highly supportive member states like Poland are less eager to risk their economic ties. As an EU official told Crisis Group, "there is no dilemma when it comes to choosing between Russia and Georgia".⁷

The U.S. also launched a "reset" policy with Moscow and has become less of a public defender of Tbilisi,⁸ though U.S. officials say that in private discussions with Moscow, Georgia is as important an issue as ever. During her visit to Tbilisi in July 2010, Secretary of State Clinton called on Russia to end its "occupation" and expressed concern about its military bases in Abkhazia and South Ossetia. She said Georgia must resist being provoked by Moscow, but reassured Tbilisi that it supports its territorial integrity.⁹ While in 2008 NATO was promising eventual membership, it is clear today if this occurs, it will be many years away, and Georgian officials say the process "will be gradual".¹⁰

Russia is highly sensitive to Georgian military ties to the U.S. and NATO. The foreign ministry criticised a U.S. warship visit to Batumi in June 2011 as meddling in its "backyard", "in contravention of the current nature of Russian-American relations" and a threat to regional security

It recalls that, under international law, Russia bears responsibility for violations of human rights and humanitarian law in those areas that fall under its de facto control". "Report of the Committee on the Honouring of Obligations and Commitments by Member States of the Council of Europe (Monitoring Committee)", PACE, document 12010, 29 September 2009; "Opinion of the Committee on Migration, Refugees and Population", PACE document 12039, 29 September 2009.

⁶ The EU Monitoring Mission (EUMM), launched in October 2008, has some 200 monitors from 26 member states and a mandate to monitor, analyse and report on the security situation in the disputed regions, including on the conditions of those forced out of their homes by the conflict.

⁷ Crisis Group interview, EU official, Brussels, July 2011.

⁸ U.S.-Russia relations were strained during the Bush administration. But Presidents Medvedev and Obama called for a "fresh start" at the 2009 G20 summit, seeking common ground with regard to Iran's nuclear program. In March 2009, Secretary of State Hillary Clinton and her Russian counterpart, Sergey Lavrov, symbolically pressed a "reset" button. "New START", http://en.wikipedia.org/wiki/New_START

⁹ "Armed Conflict Database: Georgia (Abkhazia) – Military & Security Developments", The International Institute for Strategic Studies, April-May 2011.

¹⁰ Crisis Group interview, Tbilisi, May 2011.

that would encourage Georgia's "revanchist aspirations".¹¹ The vessel (the *Monterey*) was in the Black Sea for thirteenth-century naval exercises co-hosted by Ukraine and the U.S.¹²

Georgia remains convinced Russia is interested in further undermining state sovereignty and the Saakashvili administration. It alleges that Moscow finances spies and saboteurs. Most recently, in July 2011, it arrested and briefly detained four Georgian photographers for allegedly passing state secrets to Russia (see below).

B. RUSSIA'S MILITARY ACTIVITIES

Georgia is deeply concerned by Russia's growing military presence in South Ossetia and Abkhazia. Instead of removing combat troops and returning to the number of "peacekeepers" it had in each before the war – 1,000 in South Ossetia, approximately 1,800 in Abkhazia¹³ – Moscow has strengthened its capabilities, established "permanent" bases and used its federal security (FSB) troops to demarcate the "frontiers" between the entities and the rest of Georgia.¹⁴

In 2010, Russia and the de facto Abkhazian authorities agreed to create a "joint" military base until 2059, with a possibility of an extension to 2074.¹⁵ The agreement allows Moscow to update the Bombora airbase – the largest in the South Caucasus – in the town of Gudauta, to accommodate some 3,000 troops.¹⁶ The Russian military has reportedly

been building an air defence complex at Nalamus¹⁷ and upgrading the shallow water port at Ochamchira, both near the ABL.¹⁸ Russia has also allegedly been supplying Abkhazia with sophisticated weaponry, including 41 new and modern T-90 tanks with night-vision equipment, 150 personnel carriers (APC's), heavy artillery, multiple missile launchers, Tochka-U ballistic missiles, and anti-aircraft weapons.¹⁹ In 2010, Russia also confirmed the deployment to Abkhazia of a division of S-300PS anti-aircraft missiles.²⁰

Georgia is particularly concerned about the approximately 30,000 ethnic Georgians living in the Gali district of Abkhazia.²¹ Tbilisi asserts that Russia's security services, through "constant persecution", payoffs and blackmail, are using Gali to recruit locals to carry out bomb attacks in Georgia (see below).²² A key problem is that most residents are considered "stateless" under de facto Abkhazian laws, so they are easy targets for co-option and manipulation.²³

Russia's deployment of Smerch (Tornado) multiple-launch rocket systems not far from Tskhinvali, the South Ossetian capital, in December 2010 also caused consternation. Georgia said the systems, with a maximum range of 90km (sufficient to hit the Georgian capital as well as military bases in Senaki and Gori) were offensive under the terms of the Treaty on Conventional Armed Forces in Europe.²⁴ In

¹¹ "Commentary of the Russian Ministry of Foreign Affairs in connection with the landing of the American anti-missile cruiser *Monterey* in Georgia", press release, 21 June 2011.

¹² They were joined by naval forces from countries that have strong relations with Russia, including Germany and Turkey. Algeria, Azerbaijan, Belgium, Denmark, Georgia, Macedonia, Moldova, Sweden and the UK also took part. "Russia slams arrival of U.S. warship in Batumi", Civil Georgia, 22 June 2011.

¹³ The former peacekeeping contingents in Abkhazia served under a Commonwealth of Independent States (CIS) mandate but included only Russian troops.

¹⁴ "In 2009, troops were reinforced by some 1,500 Federal Security Service (FSB) Border Guards, based directly on the ceasefire line that Russia and Abkhazia claim to be the new border". Pavel Felgenhauer, "Russia struggles to establish a viable military base in Abkhazia", Eurasia Daily Monitor, 18 February 2010.

¹⁵ The Russian forces in Abkhazia are designated as "the 7th military base". In July 2010, they were integrated into the Southern Military District that includes all conventional military forces and bases in the North Caucasus, South Ossetia, the Black Sea Fleet, the Caspian Flotilla and the Russian base in Gyumri, Armenia, as part of a reorganisation of the joint command structure. "The Military Balance", International Institute for Strategic Studies, chapter 5, Russia, March 2011, p. 174.

¹⁶ Denis Dyomkin, "Russia signs deal to build military base in Abkhazia", Reuters, 17 February 2010.

¹⁷ Vladimir Socor, "Russia Deploys S-300 Air Defence Systems in Abkhazia", Eurasia Daily Monitor, 11 August 2010.

¹⁸ See Crisis Group Report, *Abkhazia*, op. cit., p. 4.

¹⁹ M. Barabanov, A. Lavrov and V. Tseleiko, "Tanks of August", Centre for Strategic Analysis and Technologies, Moscow, August 2009, www.cast.ru.

²⁰ General Alexander Zelin, commander of Russia's air force, claimed the missile systems would protect Abkhazia and South Ossetia as well as Russian military bases in the breakaway regions. "Missiles deployed in Abkhazia two years ago: Kremlin source", Agence France-Presse, 13 August 2010.

²¹ "Preliminary Results of Population Census in Abkhazia" put the exact population at 30,437. Personal website of Sergei Bagapash, president of the Republic of Abkhazia, 29 March 2011, <http://www.abkhaziagov.org>. Some Abkhaz officials had claimed as many as 45,000 full-time residents, with a few thousand others crossing back and forth from the Georgian-controlled Zugdidi district. "Living in Limbo: The Rights of Ethnic Georgian Returnees to the Gali District of Abkhazia", Human Rights Watch, July 2011, p. 22.

²² Crisis Group interviews and email communication, Georgian government officials, Tbilisi, June and July 2011.

²³ According to Abkhaz authorities, 3,500 residents of the district have been issued Abkhaz passports, and others are eligible to apply, but in many cases where individuals have applied, the document has not been issued. See "Living in Limbo", op. cit.

²⁴ The Treaty on Conventional Armed Forces in Europe (CFE) was negotiated by NATO and the Warsaw Pact during the last years of the Cold War and established comprehensive limits on key categories of conventional military equipment in Europe

early April 2010, Russia signed a deal to allow it to maintain a military presence in Tskhinvali until 2059 (extendable to 2074) that includes tanks, artillery, multiple rocket launchers and air defence systems.²⁵

Russian forces regularly hold joint military exercises with the South Ossetians. The most recent were the “Caucasus-2011” exercises in January and June 2011, reportedly to work out “joint actions for the protection of state borders”.²⁶ South Ossetia and Abkhazia have delegated authority to Russia to secure their “borders” and agreed to cooperate with it to combat terrorism and trafficking.²⁷

On a small note of progress, Russian troops that had been stationed in the Georgian village of Perevi since the 2008 war withdrew from three checkpoints on 18 October 2010 and were replaced by a Georgian police unit, pursuant to understandings reached at the Geneva talks.²⁸

C. GEORGIAN MILITARY DEVELOPMENTS

Georgia has cut its official defence budget by over 50 per cent since 2008.²⁹ Nonetheless, Russian officials claim that it is rearming and is “stronger in military terms than in 2008”. Moscow has yet to demonstrate procurement of new weapons, however, other than orders fulfilled by Ukraine based on pre-war contracts.³⁰ Re-armament has also not been confirmed by EUMM monitors or diplomats with whom Crisis Group has spoken.³¹ When Tbilisi lobbied the U.S. to sell it anti-aircraft and anti-tank weapons,³² Washington balked, evidently not wanting to fan disagreements with Moscow or stoke tensions.³³

(from the Atlantic to the Urals) and mandated the destruction of excess weaponry, http://en.wikipedia.org/wiki/CFE_treaty.

²⁵ See Crisis Group Report, *South Ossetia: The Burden of Recognition*, op. cit., pp. 8-9.

²⁶ “Южная Осетия и российские пограничники проводят совместные учения” [“South Ossetia and Russian border guards hold joint exercise”], *Rosbalt Kavkaz*, 28 June 2011.

²⁷ “Russia to sign deal on military base in South Ossetia on Wednesday”, *RIA Novosti*, 6 April 2010.

²⁸ The EUMM claims that the manoeuvres were without incident. “Armed Conflict Database: Georgia (South Ossetia) – Military & Security Developments”, *The International Institute for Strategic Studies*, April-May 2011.

²⁹ See Crisis Group Europe Briefing N°58, *Georgia: Securing a Stable Future*, 13 December 2010, p. 4.

³⁰ Crisis Group interview, Moscow, June 2011.

³¹ Crisis Group interview, EUMM official, Tbilisi, July 2011.

³² Crisis Group interview, various senior Georgian officials, 2010-2011.

³³ A confidential 2009 cable published by WikiLeaks from former U.S. Ambassador to Georgia John Tefft also discounted Russian claims that Georgia was pursuing major re-armament, even for defensive purposes. Michael Cecire, “Cable: Tefft

Georgia downgraded the status of its air force in 2010 to a unit under the general army command. A senior official said there was little point in maintaining an independent air force, since “we have only nine fighter planes [all believed to be aging Soviet SU-25s] and only three of them are in working order”.³⁴ Georgia has been focussing on training its formerly poorly-organised reserves.³⁵ Its heavy involvement in Afghanistan (it has the highest per capita troop level of any country participating in ISAF) also provides costly on the ground “training”, as several of its soldiers have been killed.

Given the numbers of Russian troops in Abkhazia and South Ossetia and their advanced weaponry, it is almost impossible to envisage a successful Georgian offensive. Georgian officials have conceded that in the event of new hostilities, they would be relegated to fighting a limited guerrilla campaign, concentrating on defending Tbilisi.³⁶

D. THE GENEVA DEADLOCK

The Geneva process provides the main forum where all parties to the conflict meet in person, but sixteen rounds between representatives from Russia, Georgia and the Abkhaz and South Ossetian authorities and attended by official “co-chairs” from the EU, the U.S., the UN and the Organisation for Security and Cooperation in Europe (OSCE), have produced few substantive results. The one tangible achievement has been the establishment of an Incident Prevention and Response Mechanism (IPRM) in February 2009, used by the parties for regular meetings to discuss security issues and incidents along the ABL. Through IPRM, the EUMM has participated in some investigations in South Ossetia and Abkhazia, most recently in May 2011.³⁷

The sides spent many months in Geneva discussing the modalities of a binding non-use of force agreement. Russia initially insisted that Georgia sign it on a bilateral basis with Abkhazia and South Ossetia. Tbilisi said it was ready to sign with Moscow, which it considers an occupying power, but not with the two entities, lest this be interpreted as a form of recognition. Moscow argued that it is “not a party to the conflict”, a claim the former chief of the

highlighted Georgia’s weakness, called for arms sales”, *Evolutsia.net*, 2 December 2010.

³⁴ Crisis Group interview, March 2011.

³⁵ Crisis Group interview, diplomats, Tbilisi, June-July 2011.

³⁶ Crisis Group interviews, current and former Georgian officials, 2009-2011.

³⁷ “There is a good atmosphere of trust between the personalities”. Crisis Group interview, EU official involved in the Geneva talks, Brussels, July 2011.

EUMM dismissed as “clearly absurd”.³⁸ Faced with this deadlock, President Saakashvili declared at the European Parliament on 23 November 2010 that Georgia would “never use force to restore its territorial integrity and sovereignty, and only resort to peaceful means in its quest for de-occupation and reunification”.³⁹

Saakashvili followed this with formal letters to the Geneva process participants and other major international organisations.⁴⁰ Russia says that in response, South Ossetia and Abkhazia drafted their own non-use of force commitments vis-à-vis Georgia and suggests that the Geneva co-chairs become guarantors of those pledges⁴¹ – an unlikely proposition as neither the EU nor the U.S. recognise South Ossetia or Abkhazia.

Georgia has called for an international security presence in South Ossetia and Abkhazia. A senior official told Crisis Group: “We are not unrealistic. We know that the Russians are not going to be leaving soon. Realistically, we hope for international peacekeeping or police in Georgian-populated areas of Abkhazia [the Gali district] and South Ossetia [the Akhagori district] as a first step”.⁴² Tbilisi was already calling for more international forces in Georgian majority districts before the war, when the OSCE and UN had limited operations there. The EUMM has a mandate to work across Georgia, but the de facto authorities and Russia have prevented it patrolling in the entities. Russia forced closure of the OSCE and UN missions in 2008-2009, though both maintain small support groups to assist the work of the Geneva OSCE and UN co-chairs.⁴³ As a first step to increase trust and improve monitoring, the sides could agree in Geneva to exchange information directly on their security forces and their movements in areas near the ABLs even in the absence of an international monitoring presence.⁴⁴

Georgian officials warned that they may pull out of the Geneva talks if a series of bombings, which they ascribe

to Russia (see below), continue.⁴⁵ Yet even though the effectiveness of the process is limited, it remains of interest to Tbilisi because it keeps the dispute on the international radar. For Russia, Geneva allows it to claim the role of “mediator” in an international context. The next round of the process is due in October 2011 – four months after the last one. The EU is supposed to change its co-chair at that time, when a new Special Representative will be appointed, and Moscow has warned that his title will play a big role in determining whether the Ossetians and Abkhaz take part, as they are averse to any wording that suggests they are part of Georgia.⁴⁶

III. ALLEGATIONS AND COUNTER ALLEGATIONS

Russia and Georgia regularly blame each other for undermining security. Georgian authorities have detained and sentenced over a dozen “spies” since the war,⁴⁷ including nine persons arrested in July 2010 in Batumi,⁴⁸ claiming that several Russian agencies run spy networks in the country.⁴⁹ On 7 July 2011, they detained four photographers: Irakli Gedenidze, the personal photographer of President Saakashvili; his wife, Natia Gedenidze, a photojournalist; Giorgi Abdaladze, who worked on contract with the foreign ministry; and Zurab Kurtsikidze, who worked for the European Photopress Agency. Gedenidze and Abdaladze were said to have passed classified documents about the president to Kurtsikidze, who acted as a contact with Russian military intelligence (GRU).⁵⁰ Natia Gedenidze was

³⁸ “European diplomat on Russia-Georgia conflict”, *Civil Georgia*, 23 March 2011.

³⁹ “Georgia makes unilateral pledge of non-use of force”, *Civil Georgia*, 23 November 2010.

⁴⁰ However, Abkhazia and South Ossetia were not explicitly cited, *ibid*; Crisis Group interview, official, Russian foreign ministry, Moscow, July 2011.

⁴¹ Crisis Group interview, Russian government official, Moscow, July 2011.

⁴² Crisis Group interviews, Tbilisi, April/June 2011.

⁴³ A foreign ministry official said Russia supports financing a UN Support Group to the Geneva Discussions under regular UN budget lines and would accept regular OSCE funding of an OSCE Support Group. Crisis Group interview, Moscow, July 2011.

⁴⁴ Crisis Group interview, EU official, Brussels, July 2011.

⁴⁵ “Georgian chief negotiator on Geneva talks”, *Civil Georgia*, 13 July 2011.

⁴⁶ Pierre Morel, EU Special Representative for the Crisis in Georgia, participates in Geneva. However the EU is considering appointing a new Special Representative for the South Caucasus and the Georgian Conflicts in September to take up his role. A Russian diplomat warned that authorities in Abkhazia and South Ossetia may refuse to deal with a European who claims to be responsible for the conflicts in Georgia, as they no longer consider themselves part of that country. Crisis Group interview, Russian foreign ministry official, Moscow, July 2011.

⁴⁷ Georgia detained four Russian spies even before the war, in 2006; they were flown back to Russia, which cut air, sea, land and railway links, as well as postal communication with Georgia and deported over 2,300 Georgians.

⁴⁸ They were sentenced on 6 July 2011 for terms ranging from eleven to fourteen years.

⁴⁹ “Interior Minister: ‘More Russian spy networks operate in Georgia’”, *Civil Georgia*, 12 November 2010.

⁵⁰ The materials were allegedly sent to two Russians wanted in Georgia for espionage, Anatoly Sinitin and Sergei Okrokov. Misha Dzhindzhikhashvili, “Georgian journalist says he spied for Russia”, *The Associated Press*, 10 July 2010; See also: “Information on additional evidences regarding the case”, justice ministry, 22 July 2011.

released on bail two days later. On 22 July, the four agreed to plea bargain deals, received suspended sentences and were set free on probation. Prosecutors said this was in exchange for information they gave the interior ministry.⁵¹

Journalists demonstrated in solidarity for their colleagues, some contending the confessions were coerced. They also criticised the lack of a public hearing, to which the government responded that some confidentiality was needed for security reasons. Civil society activists claimed this was only the government's most recent attempt to limit freedom of expression.⁵²

A. GEORGIAN CHARGES

Georgia accuses Russia not only of supporting a spy network on its territory but also of playing a role in the dozen bombings and attempted bombings that occurred across the country in 2010-2011, most notably on 22 September and 28 November 2010. The first bomb was 100 metres from the U.S. Embassy,⁵³ causing no injuries or significant damage. The second went off after midnight on a busy street in the centre of the capital, near the offices of the opposition Labour party, leaving a woman dead and five people injured.⁵⁴ A third exploded approximately an hour later in another district of the capital, shattering windows but causing no casualties.⁵⁵

For about ten days, officials said little about responsibility, other than that the explosives and bomb technology used appeared to come from the same source.⁵⁶ Then, on 7 December, it was announced that six Georgian citizens had been detained days earlier in connection to the blasts.⁵⁷ One, Gogita Arkania, is a former military officer. The interior ministry claimed that a Russian military officer in Gali

(Abkhazia), Yevgeny Borisov, had been the chief architect of the bombings and other attempts, including the failed bombing of a railway bridge in western Georgia in early October. The Russian foreign ministry says Borisov cannot have been involved as he left Abkhazia in August 2010.⁵⁸

Georgian officials describe how a senior Russian military officer in Abkhazia, Lt. Colonel Aleksander Berchenko, called the EUMM on the morning of 3 October saying that he had heard reports from ethnic Georgians crossing the ABL about a train accident in western Georgia that caused casualties. As the bomb never actually went off, Tbilisi argues that Russia knew of the plans, and this evidenced its involvement. The EUMM confirmed to Crisis Group and media that it received the call.⁵⁹

Georgia offered Russia to jointly investigate the December bombings, providing details of its own investigation and asking for assistance in arresting Borisov and two of his alleged accomplices, Merab Kolbaia and Mukhran Tskhadaia.⁶⁰ In March 2011, on a request from Tbilisi, Interpol put out a warrant for Borisov's arrest on terrorism charges.⁶¹ Senior Georgian officials said that Moscow's only response was to deny Russian military involvement.⁶² Moscow said it undertook an extensive inter-agency investigation and shared the results with Georgia in Geneva, but the allegations "were pure falsifications".⁶³

In a documentary, "Enver-2", shown on many Georgian TV outlets on 7 December 2010, the deputy head of the interior ministry claimed that after every explosion, individuals from a group involved in the bombings would call Borisov on a number registered to the Russian defence ministry.⁶⁴ A source inside the latter ministry said, "this is an obvious, poorly planned and poorly directed provocation" and suggested that the program was timed to coincide with a Russia-EU summit.⁶⁵

⁵¹ "Photographers found guilty, freed in plea agreement", Civil Georgia, 22 July 2011.

⁵² Crisis Group email communication, civil society activists, Tbilisi, July 2011. On the media situation, see Crisis Group Briefing, *Georgia: Securing a Stable Future*, op. cit.

⁵³ "Bomb explodes near U.S. embassy in Georgia", Voice of America, 22 September 2010.

⁵⁴ "One dies in two blasts in Tbilisi", Civil Georgia, 26 November 2011. Though having a stable electorate of around 8-10 per cent, the Labour Party is considered relatively marginal, with little chance to play a real political role even if an opposition coalition comes to power. It boycotted the 2010 local elections.

⁵⁵ Ibid.

⁵⁶ Crisis Group telephone interview, Georgian interior ministry official, Tbilisi, December 2010.

⁵⁷ "Georgia links blasts to Russia, arrests suspects", Civil Georgia, 7 December 2010; "Several Persons Detained As Suspects in Organising the Series of Explosions that Took Place in September-November 2010 on the Territory of Georgia", interior ministry, 7 December 2010, www.police.ge/index.php?m=8&date=2010.12.7&newsid=1807&lng=eng.

⁵⁸ Crisis Group interview, Russian foreign ministry official, Moscow, July 2011.

⁵⁹ Crisis Group interview, Tbilisi, July 2011. See also "Tbilisi says evidence links Russian officer to blasts", Civil Georgia, 8 December 2010.

⁶⁰ "Грузия попросила Россию помочь в расследовании терактов" ["Georgia asks Russia for help in investigation of terrorist attacks"], Lenta.ru, 16 December 2010.

⁶¹ "Wanted: Borisov, Evgeny", international warrant, Interpol, 17 December 2010. Georgia requested the warrant in December 2010; it was issued in March 2011.

⁶² Crisis Group interviews, Tbilisi, May-July 2011.

⁶³ Crisis Group interview, Russian government official, Moscow, July 2011.

⁶⁴ "Georgia links blasts to Russia, arrests suspects", Civil Georgia, 7 December 2010; "Several Persons Detained", op. cit.

⁶⁵ Georgi Dvali and Ivan Konovalov, "Грузия накручивает телесериал о ГПУ" ["Georgia winds up television series about GRU"], *Kommersant*, 18 December 2010.

On 16 February, Merab Kolbaia was arrested by Georgian police in Gali, Abkhazia.⁶⁶ The action was remarkable because the Georgians had to cross the ABL into territory controlled by Russian border guards to seize the suspect. EU officials say this was not the first time Georgian police had entered the region.⁶⁷ Nevertheless, the bombing affair continued. On 23 February, Georgian officials announced that three explosive devices were found outside the Imedi television station in Tbilisi and that one of the arrested alleged bombers said they had been placed there in October.⁶⁸ The interior ministry said Gogita Arkania confessed to having planted the explosives on Borisov's orders.⁶⁹ On 22 March, the interior ministry announced it believed the Russian secret services, and Abkhaz criminal and government elements were involved in a 5 May 2010 car bombing in Batumi that killed the former head of the Ajarian Department of Emergency Situations, Dmitri Kordzadze. The Abkhaz denied the allegation.⁷⁰

In June 2011, the Georgian government released a thirteen-page document, "Russia's Subversive Activities in Georgia in 2009-2011",⁷¹ purporting to show phone contacts between the Georgian suspects and Borisov and other Russian contacts in Abkhazia, who were using phones allegedly connected to the defence ministry intelligence services (GRU). Also included were amounts allegedly paid or promised by Borisov, and threats allegedly made by Russian military officials if the individuals did not carry out the operations. On 28 June, a Georgian court sentenced fifteen people for organising and carrying out terrorist acts, including one to life and seven to 30 years imprisonment. Borisov remains at large.

⁶⁶ Kolbaia was sentenced to 30 years in prison. "Police say arrested 'key figure' behind blasts", *Civil Georgia*, 17 February 2011; Crisis Group interviews, EUMM officials, Tbilisi, July 2011; EU officials, Brussels, July 2011; Olesya Vartanyan, "Наблюдатели представили факты" ["Observers present the facts"], *Ekho Kavkaza*, 21 June 2011.

⁶⁷ Crisis Group interviews, Brussels, July 2011. This action technically violated the 2008 ceasefire.

⁶⁸ "Police say explosives found outside TV station", *Civil Georgia*, 24 February 2011.

⁶⁹ "Теракт против телекомпании "Имеди" был организован по заданию российского офицера – МВД" ["Terrorist act against the television company 'Imedi' was organised according to instructions of Russian officer-MVD"], *Trend News Agency*, 24 February 2011.

⁷⁰ "Грузия обвиняет российские спецслужбы в причастности к взрыву в Батуми" ["Georgia accuses Russian Special Services of participation in explosion in Batumi"], *Caucasian Knot*, 22 March 2011.

⁷¹ The document, while not freely circulated among the Georgian media, was made available to some embassies. Crisis Group obtained a copy upon request. It features extensive details of arrests of suspects connected to the bombings and attempted bombings, as well as records of the cell phone company, "A-Mobile", working in Abkhazia.

The affair has inflamed already tense bilateral relations. An independent, professional investigation carried out together by both countries, possibly in cooperation with neutral experts, would help prevent further deterioration. The U.S. Federal Bureau of Investigation (FBI) investigated the incident near the U.S. embassy, and officials told two U.S. media outlets that according to classified U.S. intelligence, a conclusive link to Russia was established at least in the case of the 2010 bomb left near the embassy.⁷² An American official emphasised that it was not clear at what level authorisation for the bombing had been given and whether by rogue elements or direct orders from military intelligence.⁷³ Russian officials quickly denied the charges. One asked Crisis Group what benefit Moscow would get from the bombings, with the 2014 Winter Olympic Games in nearby Sochi approaching.⁷⁴

B. RUSSIAN CHARGES

Russian officials have sporadically accused Georgia, in very general terms, of assisting Islamist insurgents operating in Russia's North Caucasus.⁷⁵ The latest claim came on 7 July 2011, when the director of the Federal Security Service (FSB), Nikolai Bortnikov, announced, without offering evidence or details: "We have operative information that leaders of bandit groups, located on the territory of other countries, are nurturing the intention of using the territory of Georgia to infiltrate into the North Caucasus".⁷⁶ After the 29 March 2010 suicide bombing on Moscow's metro and the 24 January 2011 Domodedovo International Airport suicide bombing, several Russian officials also

⁷² Eli Lake, "Russia tied to blast at U.S. embassy", *The Washington Times*, 26 July 2010; Ellen Barry and Mark Mazzetti, "U.S. ties a Russian to bombings in Georgia", *The New York Times*, 28 July 2011.

⁷³ Crisis Group interviews, U.S. official.

⁷⁴ Crisis Group interview, foreign ministry official, Moscow, July 2011.

⁷⁵ In February 2010, Russian security forces killed the Egyptian fighter Makhmoud Mohammed Shaaban, a supposed founder of the North Caucasus al-Qaeda network who had been fighting in that region for many years. When reporting his death, the FSB alleged he had carried out "acts of sabotage to blow up railway tracks, electricity lines, and energy pipelines at the instructions of Georgian secret services". Officials also regularly make statements concerning the Pankisi Gorge, populated by a few thousand ethnic "Kists" (Georgians of ethnic Chechen background); "Russia says killed top local al-Qaeda militant", *RFE/RL*, 4 February 2011; "В Дагестане уничтожен один из организаторов кавказской сети Аль-Каиды" ["One of the organisers of the Caucasian al-Qaeda network was killed in Dagestan"], Channel 1, 3 February 2010.

⁷⁶ "ФСБ: боевики планируют использовать Грузию для проникновения в Россию" ["FSB: Insurgents plan to use Georgia for penetrating into Russia"], *RIA-Novosti*, 7 July 2011.

hinted at Georgian involvement, although again giving no supporting information or details.⁷⁷

The Georgian government dismisses these accusations. A Russian foreign ministry official said no official Russian government statement has blamed Georgia for supporting terrorism, and the ministry had received no detailed allegations from the FSB.⁷⁸ Third-country diplomats say they have seen no supporting evidence.⁷⁹ Yet, the unofficial Russian statements are quickly reprinted in the Georgian press, fuelling fears that Moscow may violate Georgian sovereignty in “hot pursuit” of terrorists.

Georgia should refrain from responding nervously to every Russian politician’s allegation, and Russian officials from making unsubstantiated and provocative allegations without firm evidence. Senior Georgian officials say the EUMM can look for any groups or individuals undermining regional security,⁸⁰ with or without Georgian security forces.⁸¹ This offer should be accepted. The OSCE deployed border monitors along the Russian-Georgian frontier in 1999 to prevent infiltration, but Russia vetoed the mission’s extension in 2005.⁸² If there is a real security threat along the border, this monitoring could be revived. But the Russians do not seem entirely serious about their allegations, using them instead perhaps to prepare the ground to blame

Georgia should there be a grave breach of security in Russia, especially around the 2014 Sochi Olympic Games.⁸³

C. GEORGIA AND THE NORTH CAUCASUS

Since the 2008 war, Georgia has tried to engage with the people of the North Caucasus, in order to reverse negative perceptions about Tbilisi there. Moscow considers this policy a provocative one, developed in spite rather than good faith. In February 2010 the Georgian parliament made a “friendship and cooperation” appeal to the region’s authorities. President Saakashvili followed up at the UN General Assembly, saying, “we might belong to different states and live on different sides of the mountains, but in terms of human and cultural space, there is no North and South Caucasus; there is one Caucasus, that belongs to Europe and will one day join the European family of free nations, following the Georgian path”.⁸⁴

1. Change of visa regime

In October 2010, Georgia lifted visa requirements for Russian residents of the North Caucasus crossing the lone legal land border between Russia and Georgia at Zemo Lars (Verkhny Lars in Russian).⁸⁵ The Russian foreign ministry called this an attempt to “destabilise the situation in the North Caucasus”, and Russia’s Presidential Envoy to the North Caucasus, Aleksandr Khloponin, described it as a “political travesty” and a “cheap trick”.⁸⁶

Georgian officials said it was meant to promote tourism, especially in ski resorts near the border, and make it easier

⁷⁷ The head of the Russian Security Council, Nikolay Patrushev, blamed Georgia after the metro bombings. “Николай Патрушев: возмездие ждет их всех” [“Nikolai Patrushev: Retribution awaits them all”], *Kommersant*, 31 March 2010. Senator Aleksandr Torshin, a member of the National Anti-terrorist Committee, said the Domodedovo attack was planned abroad, most likely in Georgia, “Сенатор Торшин считает, что теракт в Домодедово был организован из Грузии” [“Senator Torshin considers that the terror attack at Domodedovo was organised from Georgia”], *Gazeta.ru*, 1 March 2011; Vladimir Kolesnikov, a United Russia parliamentarian and deputy head of the Duma committee for security, echoed him: “НАК осудил сенатора за заявления о ‘грузинском следе’ в теракте в ‘Домодедово’” [“National Anti-terrorism Commission condemns senator’s remarks about ‘Georgian traces’ in terrorist attack at Domodedovo”], *Newsru*, 1 March 2011.

⁷⁸ Crisis Group interview, Moscow, July 2011.

⁷⁹ Crisis Group interviews, diplomats and EUMM officials, Tbilisi, June-July 2011.

⁸⁰ Crisis Group interview, Tbilisi, June 2011.

⁸¹ For more on Georgian statements that the EUMM is free to patrol in the Pankisi Gorge or elsewhere in Georgia, see the English transcript of Moscow radio station Echo Moskvy’s interview with President Saakashvili, http://www.president.gov.ge/index.php?lang_id=ENG&sec_id=285&info_id=6673. Russia has not taken Georgia up on this.

⁸² “Russia/Georgia: Moscow vetoes OSCE’s border monitoring mission”, RFE/RL, 30 December 2004.

⁸³ Crisis Group interviews, Brussels, Washington DC and Moscow, July 2011.

⁸⁴ He added: “As I speak, thousands of tanks, armed vehicles and missile platforms are entrenched or moving all across the Caucasus. If we remain on our own, isolated from each other, they will prevail. But if everybody holds the hand of his neighbour, if tens of millions of unarmed people stand together, shoulder to shoulder, being the continuation of each other just like the Caucasian mountains, then no brutal force will ever break through this chain of awakened human spirits and this thirst for freedom”. Remarks to 65th General Assembly, 23 September 2010.

⁸⁵ The visa-free regime was to cover any resident of Dagestan, Chechnya, Ingushetia, North Ossetia, Kabardino-Balkaria, Karachai-Cherkessia and Adygeya then free to enter Georgia. Other Russian citizens could not obtain visas at the road crossing unless they were there driving their own vehicles. They also needed to pay \$20. “Грузия отменит визы для жителей Северного Кавказа” [“Georgia removes visas for residents of the North Caucasus”], *Lenta.ru*, 11 October 2010.

⁸⁶ “Statement of the Russian Foreign Ministry”, 14 October 2010, <http://www.mid.ru>. “Russia’s North Caucasus presidential envoy slams Georgia’s visa move”, *RIA Novosti*, 26 October 2010.

for these Russians to use Tbilisi's airport.⁸⁷ One said Georgia wanted Russians from the North Caucasus to see that they are welcome.⁸⁸ Some Georgian analysts, however, viewed the initiative as little more than a "stick in the eye"⁸⁹ and a signal that Tbilisi could engage the North Caucasus in the same way that Russia "engages" Abkhazia and South Ossetia. Clearly the decision exacerbated tensions for little gain, and in June 2011, Georgia announced that all Russian citizens could buy a visa at any Georgian border point for \$20.⁹⁰ The Russian foreign ministry assessed this positively but noted that Georgia should have consulted or coordinated if it wished to make a friendly gesture.⁹¹

2. Involvement in the Circassian question

The 2014 Winter Olympics are to be held in the Russian port city of Sochi, the port city from which the Circassian population was deported by the Czars in 1864. Moscow's relations with Circassians are thus particularly sensitive at this time. In March 2010, the Jamestown Foundation and Tbilisi's Ilia State University jointly organised a conference, "Hidden Nations, Enduring Crimes: The Circassians and the Peoples of the North Caucasus between Past and Future".⁹² Beyond discussing a controversial topic, participants signed an appeal to the Georgian parliament to recognise the Circassian deportations as "genocide".⁹³ A second Jamestown Foundation conference, in November, called for a Sochi Olympics boycott.⁹⁴ On 20 May 2011, the parliament adopted by a vote of 90-0 (at least two dozen deputies did not participate), a resolution recognising the nineteenth century Circassian deportations by Czarist armies as genocide, making Georgia the first country to do so. In July, the Georgian government announced its

intention to set up a memorial to the "Circassian genocide" in 2012 in a village along the Black Sea close to Abkhazia.⁹⁵

The reaction in Moscow was swift. This recognition was aimed at "antagonising Russia", said Konstantin Kosachev, chairman of the Duma's international affairs committee. "I regret that the politicians in Georgia failed to withstand a temptation to materialise their own nationalistic complexes at the expense of other peoples", he said, adding that the parliamentarians do not care about the "really tragic fate of the Circassian people".⁹⁶ Presidential Envoy Khloponin commented: "It is clear that Georgia is playing a political card against the Circassian subjects and playing it under the Olympic Games".⁹⁷

3. Russian-language satellite TV station

In January 2010, the Georgian government launched the Russian-language television station First Caucasus.⁹⁸ Moscow interpreted this as an attempt to disseminate anti-Russian propaganda and destabilise the volatile North Caucasus. The French satellite company Eutelsat dropped First Caucasus under Russian government pressure,⁹⁹ but it continued to broadcast online. In July 2010, the station was transferred without a tender to a private British satellite company, K1 LLC. Robert Parsons, a prominent former BBC correspondent, was picked to head it, its format was overhauled, and it was relaunched in January 2011. Since that time, Russian criticism has been muted.

While it was initially assumed the station would focus on the North Caucasus and mainly criticise Russia, it has concentrated more on wider international news, Moscow-based reporting, Armenia and Azerbaijan than on themes involving the North Caucasus. In June it organised a television bridge with the semi-official Russian government media outlet RIA-Novosti, including among the participants pro-Kremlin Duma member Sergei Markov, a particularly fierce critic of the Saakashvili administration. Moreover, Russian President Medvedev gave a long interview on 4 August to

⁸⁷ Crisis Group interview, Tbilisi, March 2011.

⁸⁸ Crisis Group interview, Tbilisi, March 2011.

⁸⁹ Crisis Group interview, Tbilisi, May 2011.

⁹⁰ Residents of the seven North Caucasus republics continue to be allowed into Georgia with no visa for 30 days. Georgians need to procure a visa in advance in order to visit Russia, which can be time consuming and costly, if possible. "Грузия открыла Верхний Ларс для всех россиян" ["Georgia opened Verkhny Lars for all Russians"], *Gruziya* (online), 2 July 2011.

⁹¹ Crisis Group interview, Moscow, July 2011.

⁹² Press release, Jamestown Foundation, 22 April 2010.

⁹³ Amie Ferris-Rotman, "Russian Olympics clouded by 19th century deaths", *Reuters*, 21 March 2010.

⁹⁴ "В Грузии конференция по 'черкесскому вопросу' потребовала бойкота зимней Олимпиады-2014 в Сочи" ["In Georgia, conference on 'Circassian Question' demands boycott of 2014 Winter Olympics in Sochi"], *Caucasian Knot*, 23 November 2010. The Russian press discounted the second conference, mentioning that only one Circassian attended, "В Грузии пройдет 'тайная' конференция по черкесскому вопросу" ["A 'secret' conference on the Circassian question is taking place in Georgia"], *Regnum*, 19 November 2010.

⁹⁵ "Georgia Plans 'Circassian Genocide Memorial'", *Civil Georgia*, 29 July 2011.

⁹⁶ "Russian MP on Georgia's recognition of 'Circassian genocide'", *Civil Georgia*, 21 May 2011.

⁹⁷ "Хлопонин: Грузия разыгрывает «черкесскую карту» к Олимпийским играм" ["Khloponin: Georgia is playing the 'Circassian card' in the Olympics Games"], *Vzlyad*, 14 July 2011.

⁹⁸ The Georgian government created the station through the Georgian Public Broadcasting Company from a reserve fund of 7 million lari (then approximately \$3.5 million). "The administration of the 'First Caucasus' television station is transferred to a British company", *Caucasian Knot*, 18 July 2010.

⁹⁹ "Первый кавказский русскоязычный канал прекратил вещать" ["The broadcasting of the Russian-language 'First Caucasus' channel is ceased"], *BBC Russian Service*, 28 January 2010.

First Caucasus, together with Russian media outlets Russia Today and Echo of Moscow.

IV. ECONOMIC ISSUES

Even though political relations have further deteriorated since 2008, Georgia and Russia continue a degree of economic cooperation. According to the energy and natural resources minister, “despite the fact the Russian side carried out an occupation and open military aggression [against us], Georgian companies will have healthy economic relations with Russian companies”.¹⁰⁰ Tbilisi has historically been economically reliant on Russia, but in an extraordinary twist Moscow is now substantially dependent on Tbilisi to secure membership in the World Trade Organisation (WTO).

A. WTO DISAGREEMENT

WTO membership is generally decided by consensus. Technically there is no veto, and a country can be admitted by two-thirds vote,¹⁰¹ but that method has never been invoked. It might be considered demeaning for a major country to pursue that route,¹⁰² and the WTO is unlikely to create such a precedent with Russia.

Georgia has been a member since 2000, while Russia’s accession process has been underway for over fifteen years. From early on, Georgia has used the possibility of blocking Russia as a bargaining chip, while maintaining that its ultimate membership is a mutual interest. In 2006, Georgia said it would seek to suspend the accession process when Russia banned the import of Georgian wine, mineral water, fruits and vegetables and threatened to cut gas supplies.¹⁰³ It also demanded that control be restored over its customs posts along the Russia-South Ossetia-Abkhazia borders. Russia allegedly promised to resolve the problem,¹⁰⁴ but the 2008 war further complicated the issue, and in October 2010 the Georgian foreign ministry again said Russia must agree on how to control the customs posts on the Psou River (Abkhazia) and the Roki Tunnel (South Ossetia).¹⁰⁵ Georgia insists that these requests are not political but rather relate to Russia’s obligation to satisfy

fundamental WTO principles. Russia says customs controls should have nothing to do with WTO accession.¹⁰⁶

The accession process has been long and complicated, and Russian interest has started to wane.¹⁰⁷ In late 2007, Moscow believed it was on the verge of success,¹⁰⁸ but accession was delayed by the war and then again after it said it wished to join the WTO as part of a customs union it created in June 2009 with Kazakhstan and Belarus. After the WTO declined to consider such a membership, Russia returned to its plan of joining alone.¹⁰⁹ U.S. support for Russian membership is an important part of the 2009 “reset” of bilateral relations,¹¹⁰ but Washington says Georgia and Russia need to work out their differences.¹¹¹

Since 2010, Switzerland has mediated between Russia and Georgia in their WTO negotiations four times, most recently in late July 2011. It has produced a document proposing ways to increase transparency of customs controls. In a rare sign of progress, Russian Foreign Minister Sergei Lavrov said in mid-July that a deal ensuring transparency on the borders between Russia and Abkhazia and South Ossetia, respectively, was “doable” in the near future.¹¹² In Moscow, however, a foreign ministry official expressed scepticism about an early breakthrough.¹¹³ Georgia has dropped its demand to physically station its own monitors at border crossings and said it could agree to internationals instead but has not accepted an unmanned option such as using

¹⁰⁰ Nina Akhmeteli, “Россия в грузинской энергетике: бизнес или политика?” [“Russia in Georgian electricity: Business or politics?”], BBC Russian Service, 9 April 2011.

¹⁰¹ “Article XII: Accession”, Marrakesh Agreement Establishing the World Trade Organisation, WTO, 1 January 1995.

¹⁰² Crisis Group interview, economic expert, Moscow, July 2011.

¹⁰³ “Georgia threatens Russia WTO veto”, BBC News, 21 November 2006.

¹⁰⁴ Crisis Group interview, economic expert, Moscow, July 2011.

¹⁰⁵ “PM: ‘Georgia supports Russia’s WTO bid, but with one condition’”, Civil Georgia, 8 October 2010.

¹⁰⁶ Nestan Charkiani, “Can Russia enter into the WTO in circumvention of Georgia?”, Voice of America, 14 March 2011.

¹⁰⁷ Powerful Russian business lobbies are against membership, and while President Medvedev appears to still consider it a priority, Prime Minister Putin reportedly thanked European Commission President Barroso for not letting his country into the WTO, claiming that the global economic crisis was pulling its members down. “Путин: спасибо ЕС, что ‘не пустил’ Россию в ВТО” [“Putin: Thank you EU for ‘not letting’ Russia into the WTO”], Gazeta.ru, 7 February 2009.

¹⁰⁸ Crisis Group interview, economic expert, Moscow, July 2011.

¹⁰⁹ For the past year, Russia has been busy harmonising its customs union rules with WTO criteria.

¹¹⁰ “Russia’s membership would allow us to increase trade and deepen our economic ties. This is a high priority, and a priority for President Obama and the administration. It’s part of our broader global effort to promote a rules-based system of economic competition”, said U.S. Secretary of State Hillary Clinton. Kathy Lally, “Russia close to taking seat at economic table”, *The Washington Post*, 21 October 2010. Many in Russia would like the U.S. to press Tbilisi harder, “Lavrov: Georgia, Russia WTO deal ‘very doable’”, Civil Georgia, 14 July 2011.

¹¹¹ Crisis Group interview, State Department official, Washington DC, July 2011.

¹¹² “Lavrov”, op. cit.

¹¹³ Crisis Group interview, Moscow, July 2011.

satellites to observe.¹¹⁴ Swiss officials say they see a “window of opportunity”.¹¹⁵

B. RUSSIAN TRADE EMBARGO

If Russia enters the WTO, it should mean it will call off its embargo on Georgian wine, mineral water and agricultural produce, as it would contravene the organisation’s rules.¹¹⁶ Georgia has had only spotty success in finding alternative markets for these products, so resumed normal trade could bolster exports. Russia once took 90 per cent of Georgian wine exports, for instance.¹¹⁷

Both countries’ main trade partner is now the EU, although the bilateral relationship is still significant. Russia is Georgia’s fifth largest trading partner, accounting for approximately 5.6 per cent of the total in 2009. However, there is a significant imbalance. Georgia imported €207.7 million worth of Russian products (6.7 per cent of all imports) but exported just €13 million worth of goods to Russia (1.6 per cent of all exports). Unsurprisingly, Georgia is an even smaller part of Russia’s economy, accounting for only 0.1 per cent of its total trade, as Russia’s 46th largest trading partner in 2009.¹¹⁸ In 2005, the last year before Moscow imposed an embargo, 17.7 per cent of Georgia’s total exports (worth \$153.7 million) went to Russia, which was then its largest export market. This included 88 per cent of all its wine exports.¹¹⁹ Natural gas was once one of Georgia’s main imports from Russia, but by 2009 it was buying 1.33 billion cubic meters (bcm) from Azerbaijan and only 0.19 bcm from Russia.¹²⁰ Significant investment in hydroelectric power means Georgia no longer has to rely primarily on natural gas or fuel oil to produce electricity.

¹¹⁴ Crisis Group email communication, Georgian official, July 2011.

¹¹⁵ Crisis Group interview, diplomats, Tbilisi, 2011.

¹¹⁶ Crisis Group interviews, diplomats, Tbilisi, July 2011.

¹¹⁷ Others say that the lifting of the Russian embargo on Georgian wine and produce exports would be a mixed blessing, excusing Georgian exporters for not trying to diversify and giving Russia new leverage. Crisis Group interviews, former and current Georgian officials, Tbilisi, June 2011.

¹¹⁸ “EU Bilateral Trade and Trade with the World: Georgia”, Eurostat, 8 June 2011.

¹¹⁹ http://geostat.ge/index.php?action=page&p_id=137&lang=eng; for wine, Georgian agriculture ministry, <http://www.maf.ge/index.php?l=2>.

¹²⁰ “BP Statistical Review of World Energy”, British Petroleum, June 2010, p. 31.

C. RUSSIAN INVESTMENT

Foreign direct investment (FDI) in Georgia fell by 16 per cent in 2010 compared to 2009,¹²¹ due to the war and the global economic slowdown. Russian companies, however, increased their investments, concentrating on energy, the financial sector, chemicals, mining, food industries and telecommunications and putting in \$51 million, approximately 9 per cent of the total.¹²² Even though this is small change for Russia and far from the pre-war 2007 peak of \$89 million, it was a five-fold jump from 2009 (\$10 million).

Even in the currently difficult political situation, President Saakashvili insists: “We’re not going to hinder Russian companies from coming to Georgia The more business interest we get, the less political pressure there will be”.¹²³ But critics are concerned that Russian businesses in Georgia are linked to Russian state-owned companies and that Moscow is expanding its influence in the region.¹²⁴ JSC-Telasi, which operates Tbilisi’s power grid, is 75 per cent held by the huge Russian state-controlled utility firm, Inter RAO-UES. Service was not interrupted during the war. In 2011, Georgia’s energy minister said the state may sell its remaining 25 per cent stake in Telasi.¹²⁵

The two governments also continue to make energy deals. In January 2009, Inter-RAO UES and the Georgian government agreed to jointly operate the Inguri hydroelectric

¹²¹ “Foreign Direct Investments”, National Statistics Office of Georgia, www.geostat.ge/.

¹²² “FDI in Georgia by Country”, at www.geostat.ge/. Dutch investment was almost 26 per cent, that of the U.S. just under 20 per cent. “Объем прямых иностранных инвестиций в Грузии в 2010 году составил 553 миллиона долларов” [“Total foreign direct investment in Georgia accounted for 553 million dollars in 2010”], PIK Television, 11 March 2011.

¹²³ “Saakashvili: Inguri HPP deal with Inter RAO will be perfect”, Civil Georgia, 13 March 2009.

¹²⁴ Among other Russian companies doing business in Georgia are Itera, VTB Bank, mobile operator Beeline, the gas station chain “Lukoil Georgia”, the copper mining company “Madneuli”, the silver and gold mining company “Kvartziti” and the electricity distribution company Energo Pro Georgia. Nino Tamazashvili, “ბანკები და ფინანსები : რუსული კაპიტალის ექსპანსია საქართველოში წარმატებით გრძელდება” [“Expansion of Russian capital in Georgia continues successfully”], Banks and Finance (Tbilisi, 13 February 2011), <http://banksandfinance.ge/banks/print:page,1,2148-rusulikapitali.html>. See also “სად ვეძებოთ რუსული ფული” [“Where to Look for Russian Money”], Kvirispalitra, 14 August 2009; Vladimir Papava, “Post-Soviet Economic Relations between Georgia and Russia: Reality and Development Potential”, in George Khutsishvili and Tina Gogueliani (eds.), *Russia and Georgia: The Ways Out of Crisis* (Tbilisi, 2010), pp. 24-47.

¹²⁵ Margarita Antidze, Reuters, “Georgia plans new hydro plants, power IPOs”, as reprinted in *Georgian Daily*, 7 February 2011.

power station (most of which is in Abkhazia). In March 2011, the energy ministries signed a memorandum of understanding on measures to ensure parallel operation of Inter-RAO UES and the Georgian energy systems, followed, three weeks later, by an agreement between their energy companies. In April 2011, Georgia and Inter-RAO UES signed a memorandum on cooperation in the electric power industry.¹²⁶ Inter RAO owns two hydropower plants in Georgia (Khrameshi-1 and Khrameshi-2) and plans to build three more for \$193 million by 2016.¹²⁷ Georgia now gets most of its electricity from hydro power and is a net electricity exporter, including to Russia.

D. TRANSPORTATION

Russia and Georgia have already also proven they can cooperate on practical transport issues. Direct air service between Moscow and Tbilisi was relaunched in 2010 after a two-year hiatus, when the Georgian United Transport Administration¹²⁸ and the Russian Federal Air Transport Agency¹²⁹ gave permission to Russian carrier S7 and Georgian Airways to fly between the two countries. Charter flights between Moscow and Batumi and Kutaisi (Georgia) also exist. Such steps may appear minor, but they have an intangible value in helping to chip away at the sense of mutual estrangement of ordinary citizens, if not their respective leaderships. Transport links help foster increased trade, which can inevitably lead to more contact between people and governments.

V. CONCLUSION: TALKING TO REDUCE TENSIONS

The Georgian and Russian leaderships remain locked in a deeply hostile, destabilising environment of distrust that is rooted in the emotional legacy of the 2008 war, as well as the legacy of the Soviet Union's collapse twenty years ago. It will likely take a long time to overcome the many major disagreements, like the Russian presence in Abkhazia

and South Ossetia and status issues related to both entities, but major international actors need to send a strong message that direct talks are urgently needed.

So far, Georgia and Russia have mainly talked past each other, distracted by accusations and counter accusations, except when they perceive a clear mutual interest to cooperate, such as in the energy field. Trade, transport and humanitarian issues also have the potential to stimulate at least a modicum of civilised dialogue. A senior Georgian official told Crisis Group that if security was assured, Tbilisi was prepared to contemplate the long-discussed opening of the railway line across the ABL into Abkhazia and on into Russia and use of Georgia's Batumi and Poti ports for transporting building materials to the site of the 2014 Sochi Olympics.¹³⁰ This would ostensibly relieve bottlenecks, as Russia presently depends on Novorossiysk port and its rail line. But talks on such an issue would need to skirt Abkhaz status questions and come up with innovative solutions to customs and visa challenges.

The serious allegations that Russia and Georgia have made against each other in the security sphere make measures to improve the atmosphere and cooperation on investigations essential. The IPRM has shown that exchange of information on security incidents is beneficial to all, and the two parties should more readily exchange information also on their armed forces and their movements. While the Abkhaz and South Ossetians were initially distrustful of the EUMM, believing it would be pro-Georgian, its professionalism has built confidence, and it is more regularly called in to assist investigations in both entities. It could even be more public about its findings and work so as to enhance trust. EUMM contacts with Russian forces on the ground and the government in Moscow have apparently been less frequent recently but will hopefully be stimulated with the deployment of a new head of mission. The mission could consider patrolling areas where Russian officials have alleged Islamist insurgents from the North Caucasus are active in Georgia, so as to separate fact from fiction and ease tensions resulting from such charges.

Switzerland's mediation over the WTO has shown that Russia and Georgia can sit down when facilitated by a third party both view as neutral. The foreign minister and other Swiss officials say they are ready to expand mediation beyond WTO matters. The Swiss president and foreign minister have visited both countries recently.¹³¹ Russia has not excluded further talks assisted by the Swiss.¹³² Experience also shows that direct talks are possible. The Georgian lead-

¹²⁶ JSC "INTER RAO UES" occupies a leading position in Russia's electricity exports and imports. Partly owned by the government, Deputy Prime Minister Igor Sechin was its chairman when the memorandum with Georgia was signed.

¹²⁷ Manana Vardiashvili, "ანტირუსული რიტორიკა და რუსული ინვესტიციები" ["Anti-Russian rhetoric and Russian investments"], *Liberali*, 5 May 2011.

¹²⁸ "Грузия временно разрешит чартеры из Москвы в Тбилиси" ["Georgia gradually allows charter flights from Moscow to Tbilisi"], *Automan.kz*, 7 June 2010.

¹²⁹ "Российская авиакомпания получила разрешение на регулярные рейсы в Грузию" ["A Russian air company received permission for regular flights to Georgia"], *Automan.kz*, 18 August 2010.

¹³⁰ Crisis Group interview, March 2011.

¹³¹ Matthew Allen, "Swiss play role in new Russian revolution", *Swissinfo.ch*, 13 July 2011.

¹³² "Putin 'regrets' having ties with Tbilisi via mediator", *Civil Georgia*, 16 June 2011.

ership has said it is ready for talks at any level on core issues without preconditions. Moscow has said it will not talk to President Saakashvili and will wait for a change in power in Tbilisi.¹³³ Nevertheless, governmental agreements have recently been concluded on energy and transport issues.

Overcoming distrust is essential for enhanced stability, including a healthy socio-political environment in Georgia before fall 2011 parliamentary and 2013 presidential elections. Georgian authorities have repeatedly stated that some domestic opposition parties are Russian funded. President Saakashvili claimed in July that ethnic Georgian businessmen operating in Moscow were funding opposition groups.¹³⁴ The former parliament speaker, Nino Burjanadze, and former prime minister, Zurab Noghadeli, both of whom served during the Saakashvili administration, have frequently visited Moscow and met with Prime Minister Putin, although neither enjoys significant support at home. The Russian foreign ministry denies involvement in Georgian politics.¹³⁵

Security questions are important for Russia, which will host the 2014 Winter Olympic Games not more than 20km from its border to de facto independent Abkhazia. International sporting events – partially designed to test the readiness of facilities – will begin in 2012. Sochi is also not far from areas of the unstable Russian North Caucasus. Moscow thus has strong interests in enhanced regional security, including dialogue with any Georgian government.

Political discourse and media in Russia and Georgia are preoccupied with the bitter relationship. It is time for the two protagonists to talk to each other more over a negotiating table, whether directly or with the aid of a third-party, rather than trade allegations about each other in the press or parliament.

Tbilisi/Moscow/Istanbul/Brussels, 8 August 2011

¹³³“Дмитрий Медведев назвал условия, при которых будет баллотироваться на второй президентский срок” [“Dmitri Medvedev names the conditions under which he will run for a second presidential term”], Newsru, 24 June 2010; “Дмитрий Медведев: мы не будем вести переговоры с Саакашвили” [“Dmitri Medvedev: We will not negotiate with Saakashvili”], *Oruzhie Rossii*, 15 June 2009.

¹³⁴“Interview with Mikhail Saakashvili”, Ekho Mosvky, 8 July 2011, www.echo.msk.ru/programs/beseda/790260-echo/.

¹³⁵ Crisis Group interview, Moscow, May 2011.

APPENDIX A

MAP OF GEORGIA



APPENDIX B

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 130 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

Crisis Group's reports and briefing papers are distributed widely by email and made available simultaneously on the website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policy-makers around the world. Crisis Group is chaired by former U.S. Ambassador Thomas Pickering. Its President and Chief Executive since July 2009 has been Louise Arbour, former UN High Commissioner for Human Rights and Chief Prosecutor for the International Criminal Tribunals for the former Yugoslavia and for Rwanda.

Crisis Group's international headquarters are in Brussels, with major advocacy offices in Washington DC (where it is based as a legal entity) and New York, a smaller one in London and liaison presences in Moscow and Beijing. The organisation currently operates nine regional offices (in Bishkek, Bogotá, Dakar, Islamabad, Istanbul, Jakarta, Nairobi, Pristina and Tbilisi) and has local field representation in fourteen additional locations (Baku, Bangkok, Beirut, Bujumbura, Damascus, Dili, Jerusalem, Kabul, Kathmandu, Kinshasa, Port-au-Prince, Pretoria, Sarajevo and Seoul). Crisis Group currently covers some 60 areas of actual or potential conflict across four continents. In Africa, this includes Burundi, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Nigeria, Rwanda, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Bangladesh, Burma/Myanmar, Indonesia, Kashmir, Kazakhstan, Kyrgyzstan, Nepal, North Korea, Pakistan, Philippines, Sri Lanka,

Taiwan Strait, Tajikistan, Thailand, Timor-Leste, Turkmenistan and Uzbekistan; in Europe, Armenia, Azerbaijan, Bosnia and Herzegovina, Cyprus, Georgia, Kosovo, Macedonia, Russia (North Caucasus), Serbia and Turkey; in the Middle East and North Africa, Algeria, Egypt, Gulf States, Iran, Iraq, Israel-Palestine, Lebanon, Morocco, Saudi Arabia, Syria and Yemen; and in Latin America and the Caribbean, Bolivia, Colombia, Ecuador, Guatemala, Haiti and Venezuela.

Crisis Group receives financial support from a wide range of governments, institutional foundations, and private sources. The following governmental departments and agencies have provided funding in recent years: Australian Agency for International Development, Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Belgian Ministry of Foreign Affairs, Canadian International Development Agency, Canadian International Development and Research Centre, Foreign Affairs and International Trade Canada, Czech Ministry of Foreign Affairs, Royal Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Commission, Finnish Ministry of Foreign Affairs, French Ministry of Foreign Affairs, German Federal Foreign Office, Irish Aid, Japan International Cooperation Agency, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Agency for International Development, Royal Norwegian Ministry of Foreign Affairs, Slovenian Ministry of Foreign Affairs, Swedish International Development Agency, Swedish Ministry for Foreign Affairs, Swiss Federal Department of Foreign Affairs, Turkish Ministry of Foreign Affairs, United Arab Emirates Ministry of Foreign Affairs, United Kingdom Department for International Development, United Kingdom Economic and Social Research Council, U.S. Agency for International Development.

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