

Update Briefing

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Armenia and Azerbaijan: A Season of Risks

I. Overview

Confrontation, low-intensity but volatile, between Azerbaijan and Armenia has entered a period of heightened sensitivity. Peace talks on Nagorno-Karabakh bogged down in 2011, accelerating an arms race and intensifying strident rhetoric. Terms like “Blitzkrieg”, “pre-emptive strike” and “total war” have gained currency with both sides’ planners. An immediate concern is military miscalculation, with implications that could far exceed those of a localised post-Soviet frozen conflict, as the South Caucasus, a region where big powers meet and compete, is now also a major energy corridor. Clashes increasingly occur along the Azerbaijani-Armenian frontier far from Nagorno-Karabakh, the conflict’s original focus. Tensions have also spread to areas along the border with the Azerbaijani enclave of Nakhichevan where Azerbaijani and Turkish exercised in July. A subsequent firefight produced casualties, and Armenia staged its own war games near the Azerbaijan border in September. Vigorous international engagement is needed to lessen chances of violent escalation during coming weeks and months.

While a shaky ceasefire has been in place since the war that flared in the 1990s as the Soviet Union collapsed, provocative acts are frequent: for example, Baku’s pardon for an officer who killed an Armenian colleague during a NATO-sponsored language course in Hungary, and Yerevan’s declared plan to reopen the airport in Nagorno-Karabakh to fixed-wing flights. Moreover, the possibility of internal political unrest in both countries increases the uncertainty. Unrest at home might tempt leaders to deflect attention by raising military tensions or to embark on risky attempts to capitalise on their adversary’s troubles. Both countries’ leaderships face a testing autumn. Azerbaijan’s President Ilham Aliyev stands for a third term in October. Most of the traditionally fragmented opposition backs a single candidate for the first time. Though the president’s aides claim support levels of above 70 per cent of the electorate, critics attribute his highly likely victory to the massive administrative resources firmly in his grip. Still, the authorities are concerned lest any unrest gather momentum. Armenia faces a period of uncertainty, with opposition groups planning an autumn of protests.

The strong and coordinated international pressure needed to break the diplomatic deadlock is lacking. There is scepticism in both capitals, as well as among third-country diplomats and analysts, that the officially designated mediators from the

Organisation for Security and Cooperation in Europe (OSCE), the Minsk Group – led by Russia, the U.S. and France – can deliver results. Russia’s position raises particular questions about the format’s effectiveness. It is not only a Minsk Group co-chair but also has major strategic interests in the South Caucasus and supplies arms to both sides of the conflict.

Crisis Group has written extensively for years on the dangers posed by this unresolved conflict between Azerbaijan and Armenia over Nagorno-Karabakh. This briefing does not predict a second war is either imminent or more likely than not. It does suggest the near-term threats to stability are becoming more acute. We will report in due course on approaches that might complement the Minsk mediation mechanism in the search for a long-term solution. In the meantime, prudent, prophylactic action is required, including the following:

- Diplomacy by the Minsk Group co-chairs, the European Union (EU) and others should stress need for a quiet period during which both sides dial down rhetoric. This should be accompanied by energetic international engagement highlighting the risk of miscalculations and the huge costs for both sides of resumed hostilities.
- Azerbaijan’s presidential election and Armenia’s susceptibility to political crisis in late 2013 make mutual restraint the immediate priority. Intensified regular contacts as well as meetings between ministers and parliamentarians can help in this regard and should be supported.
- A crisis hotline should be reestablished between Yerevan and Baku to lessen chances of a military escalation. As a modest confidence builder, the two sides should also step up efforts via the International Committee of the Red Cross (ICRC) to address prisoner of war issues.
- Russia, which is highly influential in all aspects of the conflict and would be the most directly affected of the Minsk co-chairs by a new war, should act more decisively to broker an agreement. It could advance this by announcing a suspension of arms supplies to both sides. Other suppliers, including South Korea and Israel, should be encouraged to do the same.

II. The Arrow of Time

The international community seems too often to take literally the adjective frequently applied to the Nagorno-Karabakh conflict: “frozen”. Despite the appearance of an old dispute caught up in historical resentments and a military standoff reminiscent of World War I trench-warfare, changing dynamics have produced an increasingly fluid and unpredictable situation in an already tense region.¹ Negotiations mediated by the OSCE Minsk Group stalled in 2010 and reached full deadlock in 2011.² Though

¹ For more background on the conflict, see Crisis Group Europe Briefing N°60, *Armenia and Azerbaijan: Preventing War*, 8 February 2011, and Crisis Group Europe Report N°187, *Nagorno-Karabakh: Risking War*, 14 November 2007.

² The OSCE Minsk Group was formed in 1994, its name taken from a conference on the conflict that was supposed to take place in the Belorussian capital but due to differences between OSCE members was not held. Permanent members include Belarus, Germany, Italy, Sweden, Finland and Turkey. Russia, France and the U.S. are the co-chairs and, in effect, the sole empowered mediators. See OSCE website, www.osce.org/mg/66872. The focus of mediation efforts has been not a final peace agreement, but a “basic principles” agreement, sometimes called the “Madrid Principles”, meant to

inconclusive, the simple existence of active negotiations and robust mediation had served as a restraining factor, discouraging either side from serious escalation.³ In the present vacuum, however, the geographic areas in which skirmishes and commando-style attacks occur along the front lines have expanded, and these have become more sophisticated, while a growing arms race has dramatically accelerated, accompanied by threats and war-scenario planning.

Predictably, the sides view the conflict through radically different prisms. Azerbaijan was deeply humiliated by its battlefield setbacks in 1992-1994. After Armenian forces cleared almost all of Nagorno-Karabakh, they occupied portions or all of seven adjacent Azerbaijani districts as a buffer zone. Over half a million ethnic Azeris fled, and tens of thousands were stuck for years in tent camps near the front lines.⁴ While the government has improved conditions for many in recent years, several hundred thousand still live in substandard “temporary” housing.

The sting of defeat has been replaced, outwardly at least, by renewed confidence. Now a major energy exporter, Azerbaijan has used the impressive revenues from its Caspian Sea oil fields to fund a massive military build-up, officially setting its defence expenditures at \$3.7 billion for the current year (2013), more than Armenia’s entire \$2.8 billion national budget.⁵ The official narrative is one of a modern, well-equipped army ready to force Yerevan to back down or accept major losses. Presiding over a grandiose Army Day parade in June 2013, President Aliev declared: “Strong Azerbaijan can afford to speak to feeble Armenia in any manner”.⁶

The passage of time has also altered Armenia’s view of the conflict. The occupied territories, once seen as a bargaining chip to secure Nagorno-Karabakh’s eventual independence or union with Armenia, are increasingly referred to as the “liberated territories”. Hardliners assert archaeological or other historical claims that these are rightfully part of an ancient Armenian homeland. Occupied Azerbaijani towns and

serve as a foundation for an eventual full settlement. The basic principles are: return of the occupied Azerbaijani territories surrounding Nagorno-Karabakh; an interim status for Nagorno-Karabakh guaranteeing security and self-governance; a corridor linking Nagorno-Karabakh to Armenia; eventual determination of Nagorno-Karabakh’s status by a legally binding expression of will; the right of all internally displaced persons (IDPs) and refugees to return; and international security guarantees, including a peacekeeping operation. See Crisis Group Briefing, *Armenia and Azerbaijan: Preventing War*, op. cit., p. 8.

³ These meetings ceased in June 2011 after a crucial session between Presidents Aliev and Sargsyan in Kazan, Russia ended in stalemate. “Azerbaijan and Armenia fail to resolve enclave dispute”, *The New York Times*, 24 June 2011.

⁴ Azerbaijani authorities say the last “tent camps” closed in 2007, although an estimated half of all the 600,000 people registered as IDPs from Nagorno-Karabakh and the occupied territories remain in substandard housing. Crisis Group interviews, government officials, journalists, Baku, June and August 2013. For more detailed information, see Crisis Group Europe Briefing N°67, *Tackling Azerbaijan’s IDP Burden*, 27 February 2012.

⁵ At a 26 June 2013 Army Day parade, Aliev remarked: “For comparison, I can say that in 2003 our military budget was \$163 million. Last year this figure was \$3.6 billion; this year it has reached \$3.7 billion. This in itself shows that military build-up is the top priority; great funds are allocated from our budget for the military build-up. This is natural”. “President Ilham Aliev: Azerbaijan’s military budget has reached \$3.7 billion this year”, *apa.az*, 26 June 2013. For a year-by-year description of the military spending increases, see “Azerbaijan military expenditure”, Index Mundi (undated), www.indexmundi.com/facts/azerbaijan/military-expenditure. “Armenian parliament approves 2013 state budget”, Pan Armenian Net, 6 December 2012; also, “Passed: Armenian parliament approves 2013 budget”, ArmeniaNow.com, 6 December 2012.

⁶ Azerbaijan State TV coverage of Aliev speech, 26 June 2013, at www.youtube.com/watch?v=Wy1_eRRapOk.

districts have been renamed, their administrative borders changed and integrated into districts of unrecognised Nagorno-Karabakh – even if most are little more than ghost towns. In Yerevan bookshops, road maps are labelled “Armenia and Artsakh” (Nagorno-Karabakh) and depict the occupied territories as part of this single united entity. Since the peace process stalled, then deadlocked, Azerbaijani threats to reverse its losses by force are often matched by Armenian bombast. President Serge Sargsyan promised during a front-line visit with commanders to deliver “a devastating and final” blow if Azerbaijan attacked.⁷

Time is neither side’s ally. Azerbaijan relies on energy exports for the vast majority of state revenues, and any significant drop-off would affect its ability to continue its weapons procurements. Most estimates indicate that a sharp fall in crude oil production is likely in the coming years. Government officials assert that natural gas exports and revenues from energy transit projects will compensate for this, but with natural gas futures difficult to predict, such optimistic assessments cannot be confirmed.⁸ Armenia’s economy has long lagged far behind, and stagnation continues. Much of its infrastructure and industry has been acquired by Russian state companies, and population decline is accelerating. While Azerbaijani predictions of its rival’s collapse are exaggerated, Armenian analysts concede the isolation and economic problems resulting in part from the debilitating conflict have caused it to lag in the arms race as well.⁹

Russia, always a large factor in the region, is rapidly reestablishing its pre-eminent position. In 1994, it was still recovering from the collapse of the Soviet Union and embarrassment in Chechnya. Today it is a resurgent, would-be regional hegemon, pushing hard to reassert its position in the South Caucasus. Though it is one of the three Minsk Group mediators along with France and the U.S., it is also the main arms provider to both sides, as well as a formally declared “strategic ally” of Yerevan.¹⁰

Should a full-scale conflict between Armenia and Azerbaijan break out again, some or all of the regional powers – Russia, Turkey and Iran – could be drawn in, directly

⁷ “If attacked, Armenia and Karabakh will deliver final, deadly blow, warns Sarkisian”, *Asbarez.com*, 15 November 2010; related quote at www.accessmylibrary.com/article-1G1-301537496/leader-says-armenians-ready.html: “Unfortunately the history of Artsakh [Karabakh] has never been short of the invaders and brigands. We know that, we also know how to send them right where they belong – to the cesspit of history. We have been doing it regularly, and if needed, will do it again” (President Serge Sargsyan, 3 September, 2012).

⁸ Due to commodity price fluctuations, no full consensus exists, but most analysts express doubts that natural gas can compensate for the loss of crude oil output, which is acknowledged as likely to fall after 2015. Crisis Group interviews, diplomats, analysts, government officials, Baku, June 2013.

⁹ Crisis Group interviews, analysts, Yerevan, June 2013.

¹⁰ Though some elements of the Armenian establishment have deep reservations about the relationship, top Russian military and security officials signed the five most recent defence agreements in Yerevan on 26 June 2013. These amounted to an expanded bilateral military cooperation pact, including, according to Russia’s official news agency, “... a treaty on the development of collaboration in the defence technology sector between the Armenian Defence Ministry and Russia’s Federal Service for Military-Technical Cooperation, as well as an agreement on collaboration and exchange of information for border protection”. “Moscow hails ‘strategic’ ties with Armenia”, *RIA Novosti*, Yerevan, 26 June 2013. That same day President Aliyev presided over an Army Day parade in Baku featuring new and advanced Russian weapons that prompted private anger from senior Armenian ministers, even if they were relatively careful in their public statements. See comments by Deputy Foreign Minister Sharvash Kocharian, “Armenia concerned with Russia’s arms supply to Azerbaijan: Sharvash Kocharian”, *Armenpress*, 27 June 2013. A prominent Yerevan-based political analyst said Moscow was openly manipulating the conflict with Azerbaijan for its own purposes. Crisis Group interviews, Armenian government officials, Yerevan-based analysts, June 2013.

or indirectly. Azerbaijan is militarily allied to Turkey and Armenia to Russia. Iran is a wildcard. Relations between Azerbaijan and Iran have long been troubled. Both are predominantly Shia Muslim, but Azerbaijani officials frequently accuse Iran of trying to undermine or replace their country's secular system with a clerical regime. Tehran actually has better relations with overwhelmingly Christian Armenia.¹¹ Baku has in recent years developed warm ties with Israel and purchased arms from Israeli companies, to Tehran's displeasure.¹²

A. *Azerbaijan: Blitzkrieg?*

Since mediation efforts have stalled, Baku has increasingly emphasised a military solution, publicly and privately. Strategic planners discuss this in much more specific terms than even a year ago. Air strikes are mentioned as a first stage in any offensive, targeting air defences, then infrastructure. "We are confident we can retake a significant amount of territory in a relatively short time and force the Armenians to make a deal", said one.¹³

In recent years Baku has bought a wide array of hardware, from attack helicopters, fighter planes, and surface-to-air missiles, to anti-tank artillery systems. In August 2013, government officials announced plans to procure another \$3 billion worth of arms from South Korea, including submarines and naval vessels.¹⁴ Drones, some imported from Israel, others produced domestically in a joint venture, are another major focus.¹⁵ Azerbaijan has also embarked on creating a large domestic weapons industry, from the high explosive hexogen to machine guns, ammunition, automatic rifles and artillery.¹⁶

The June 2013 delivery of some \$1 billion worth of Russian weapons to Baku was the latest in a series since 2010, with an estimated total value of \$3 billion-\$4 billion. These have included advanced tanks, artillery and air defence systems. Some ana-

¹¹ Armenia and Iran have cooperated on many economic issues, including a natural gas pipeline that carries Iranian gas to Armenia in exchange for electricity. Crisis Group interview, Armenian officials and analysts, June 2013. In a sign of the warm ties, President Sargsyan attended the 2013 inauguration of the new Iranian president, Hassan Rouhani, while Azerbaijan's Aliiev did not. "President Sargsyan attends inauguration of Iran's Rouhani", news.am, 4 August 2013.

¹² For a wide view of Baku-Tehran relations in recent years, see James Reynolds, "Why Azerbaijan is closer to Israel than Iran", BBC, 12 August 2012.

¹³ Crisis Group interview, Azerbaijani government-affiliated analyst, Baku, June 2013.

¹⁴ Crisis Group telephone interview, analyst, Baku, August 2013; also, "Azerbaijan intends to purchase submarines, destroyer and aircraft in South Korea", Turan.az, 26 August 2013.

¹⁵ Azerbaijani drones were prominently displayed at the 26 June 2013 Army Day parade in Baku. Azerbaijan reportedly bought 60 from an Israeli firm in 2012 as part of a \$1.6 billion deal that included an agreement for joint production in Azerbaijan of more drones. "Israel sells drones, missiles to Azerbaijan", Radio Free Europe/Radio Liberty (RFE/RL), 27 February 2012. Azerbaijani military analysts say drones are a key component of contingency plans for air strikes on targets to cripple Armenian air defences. One claimed sorties over Nagorno-Karabakh and the occupied territories had already compiled such detailed information that "we have the identified number plates of every vehicle in Karabakh". Crisis Group interviews, Baku, June 2013. Armenia has recently shown off its own domestically-produced drones. "Military parade displays first-ever Armenian-made drones", News.am, 21 September 2011.

¹⁶ Crisis Group interviews, military and security analysts, government officials, Baku, September 2012, June 2013; also, "İlham Əliyev Müdafiə Sənayesi Nazirliyinin Şirvanda telemexanika zavodunun iriçaplı patronların istehsalı mərkəzinin açılışında iştirak etmişdir" ["Ilham Aliiev attended the opening of a centre for the production of large-calibre ammunition at a telematics factory of the Ministry of Defence Industry"], website of the president, <http://en.president.az/articles/8590>, 1 July 2013.

lysts argue much of the spending may be lost to corruption.¹⁷ Yet, as a military expert in Yerevan noted, “even if half is lost to corruption, the other 50 per cent is still a very serious factor”. Another observed that, “the emerging long-term military balance is slowly shifting in Azerbaijan’s favour”.¹⁸ The most recent Russian delivery raised particular concerns, as it included eighteen “Smerch” (Tornado) BM-30 multiple rocket launch systems (MRLS).¹⁹ These have a strike range of up to 90km, and can also disperse anti-personnel and anti-tank mines over wide areas, threatening Armenian re-supply and escape corridors around the occupied territories and Nagorno-Karabakh.²⁰

B. Armenia: “Preventive Strike”?

Armenia has pursued its own military build-up, increasing defence spending by over 25 per cent in 2013. Though in real terms the \$450 million total is far less than Azerbaijan’s, Moscow gives Yerevan heavy discounts on its weapons, partially compensating for the imbalance.²¹ At the same time, analysts say some sophisticated systems are in effect under the control of Russian forces stationed in Armenia pursuant to the Moscow-led Collective Security Treaty Organization (CSTO) pact, so may not be freely deployable during a serious conflict without clearance by Russia.²² Nevertheless, Armenian and Karabakhi officials now openly discuss the need for “preventive strikes” to forestall an all-out Azerbaijani offensive. Armenian officials say their recent weapons procurement is more than enough to repel an attack. “Over the past three years, we have acquired as many weapons as we did in the previous twenty”, Prime Minister Tigran Sargsyan said during a September 2013 visit to a unit in Nagorno-Karabakh. “In this sense, rest assured that we will never allow the military balance to be disturbed”.²³

Some strategists argue that it might be better to fight sooner rather than later, when Azerbaijan’s forces will assumedly be better equipped and trained.²⁴ As part of this option, Armenian officials and some of their counterparts in Stepanakert (Nagorno-Karabakh’s unrecognised capital) mention sabotage of infrastructure, including Azerbaijani oil and natural gas pipelines, and strikes on densely populated Baku.²⁵ Azerbaijani officials say in turn that they worry about destruction of large dams relatively close to the front lines that could cause serious flooding and shortages of

¹⁷ Crisis Group interviews, military analysts, Yerevan and Baku, June 2013.

¹⁸ Crisis Group interview, Yerevan, June 2013.

¹⁹ In addition, Baku bought more than 90 T-90C tanks, about 100 BMP-3 infantry fighting vehicles, eighteen “MSTA-S” howitzer batteries, several “Vena” self-propelled anti-tank mortar/artillery systems and six “TOS-1A” multiple launch rocket systems. Crisis Group interviews, Azerbaijan officials, Baku, 18 June 2013.

²⁰ Crisis Group interviews, analysts, Yerevan, August 2012, June 2013. Armenian military analysts said they believed Azerbaijan had earlier procured more limited numbers of cluster mine munitions, possibly from China.

²¹ Crisis Group interview, military analysts, Yerevan, June 2013. “Armenia’s 2013 budget envisages USD 450 mln military spending”, Pan Armenian Net, 2 November 2012.

²² Crisis Group interviews, analysts and government officials, Yerevan, June 2013.

²³ “Armenia announced an increase in its arms acquisitions”, groong.com, 7 September 2013. The prime minister is not related to President Sargsyan. The same article quoted a parliamentarian as claiming Russia had delivered 120 plane loads of weapons to Armenia during the last year alone, and also cited a commander in Nagorno-Karabakh who remarked that such a large shipment had arrived in the unrecognised entity in July and that troops were struggling to quickly construct depots to house the weapons. Crisis Group could not independently verify the reports.

²⁴ Crisis Group interview, analyst, Yerevan, June 2013.

²⁵ Crisis Group interview, de facto Nagorno-Karabakh official, Stepanakert, June 2013.

drinking water. One, in an Armenian-controlled area of the conflict zone, the 125-metre high Sarsang dam, they say, has deteriorated so badly that it could burst or be sabotaged, threatening the lives of 400,000 people.²⁶ Officials of the de facto Nagorno-Karabakh administration have made statements offering cooperation with Baku to maintain the dam, but there has been no progress on the issue.²⁷

III. Possible Triggers

An accidental war, set off by miscalculations or skirmishes that spiral out of control, is a bigger immediate risk than a deliberate attack by either side. Both report hundreds, often thousands of ceasefire violations each month.²⁸ Dozens of killed and injured are acknowledged every year. Most serious skirmishes over the past year have been far from Nagorno-Karabakh or the occupied territories. In July 2013, for example, firefights twice forced closure of a road connecting Armenia to Georgia.²⁹ In August, there were skirmishes along the hitherto mostly quiet border of Nakhichevan, an exclave separated from the rest of Azerbaijan by Iran, Armenia and Turkey. Armenian officials and analysts say many Azerbaijani units are better prepared than a few years ago, opening fire to gauge reactions and to ascertain their foe's communication capabilities. To deter such attacks, Yerevan has instituted a policy of "disproportionate retribution" that it admits could provoke an escalation.³⁰

Both sides are also given to provocative gestures. In 2012, Azerbaijan secured the extradition of an officer, Ramil Safarov, who killed an Armenian colleague while both were attending NATO "partnership for peace"-sponsored English language courses in Hungary. The Azerbaijanis had reportedly pledged that he would serve the remaining twelve years of his twenty-year prison sentence, but on return he was treated as a hero, freed and promoted, to predictable Armenian outrage.³¹ Since 2012, Armenia has repeatedly said it will reopen a refurbished airport in Nagorno-Karabakh for fixed-wing flights. Officials in Yerevan and Stepanakert insist this will happen soon. While some fear it could lead to dangerous escalation, many others say it is merely an administrative decision meant to improve the lives of Nagorno-Karabakh's inhabitants.³² Azerbaijani officials have threatened that any such flights would be shot

²⁶ Crisis Group interview, Azerbaijani official, Baku, June 2013; also, "Azerbaijan unveils awareness and emergency strategy to avert Sarsang dam disaster", PRNewswire.com, 12 June 2013.

²⁷ "Ադրբեջանը մշտապես մերժում է Թարթառ գետի և Սարսանգի ջրամբարի ջուրը համատեղ օգտագործելու ԼՂՀ կոչը. Դավիթ Բաբայան" ["Azerbaijan rejects Karabakh's call for joint use of river resources – spokesman"], www.tert.am, 16 August 2013.

²⁸ For instance, Armenia's defence ministry alleged more than 11,000 ceasefire violations by Azerbaijani forces between January and July 2012. "Azerbaijan violated ceasefire almost 11,000 times over last seven months", News.am, 26 July 2012. Azerbaijan claimed 1,178 ceasefire violations by Armenian forces in the first ten months of 2012. "Azerbaijan Defence Ministry: Ceasefire regime violated 1,178 times this year", Trend.az, 30 October 2012.

²⁹ The incidents, on 17 and 31 July, were confirmed by Armenia's defence ministry. There was no official comment from Baku. Crisis Group telephone interviews, Yerevan officials, July 2013.

³⁰ Crisis Group interviews, government officials, analysts, Yerevan, June 2013.

³¹ "Passions, history run deep in Safarov case", RFE/RL, 10 September 2013.

³² Officials in Yerevan and Stepanakert have declined to give a date for opening the airport, which seems ready to operate. OSCE officials and some diplomats have strongly discouraged such a move, fearing it could set off serious fighting; they cast doubt on the alleged humanitarian motive, noting that helicopters regularly fly between Yerevan and Stepanakert. Crisis Group interviews, Vienna, April 2013, Yerevan, June 2013.

down. Even if it did not go that far, the Aliev government would almost certainly feel bound to flex its military muscles, especially if already under domestic pressure.³³

IV. Internal Political Pressures

With Azerbaijan holding presidential elections in October and Armenian President Serge Sargsyan under domestic pressure, political instability in either country could further aggravate the military situation. This has happened before. In 1993 Azerbaijan descended into chaos, its government confronted with military mutinies and crippled by intrigues. Armenian forces exploited this by conquering the now occupied territories adjacent to Nagorno-Karabakh one by one, often facing little or no resistance from a weakened and demoralised Azerbaijan army. More recently, during the turmoil that followed Armenia's highly-disputed 2008 presidential election, an Azerbaijani commando unit is said to have penetrated 8km into Armenian-held territory around Nagorno-Karabakh without resistance, before retreating without incident, whether because there were no orders from Baku to do otherwise or as a result of diplomatic interventions to prevent a serious escalation.³⁴

A. Armenia

Some opposition political parties are already preparing for an autumn of protest, though their avowed aim to drive President Sargsyan from office seems beyond reach.³⁵ Their grievances include controversial elections that have undermined public trust, but the main one is the economy. Development has been held back by the war and two decades of closed borders with Azerbaijan and Turkey, while key sectors have been acquired by monopolies and a few rich businessmen ("oligarchs"). Inflation is rising, and stagnant living standards have increased emigration to alarming levels.³⁶

The president suffered political damage in early September 2013, when he abruptly, and apparently without consulting other leaders, reversed policy on engagement with the EU. Armenia had until recently pursued a dual-track foreign policy. It maintained its military alliance with Russia and disavowed any intention to join NATO.³⁷

³³ Crisis Group interviews, analysts, Yerevan and Baku, June 2013.

³⁴ While there is no evidence to confirm that the upheaval in Yerevan had any effect on battlefield morale, Armenian forces in the area apparently did not actively try to repel the Azerbaijani incursion once it was discovered. One version of events said the unit had no authorisation to stay in position or advance further. Crisis Group interviews, analyst, Yerevan, November 2011. Another version, relayed by a well-connected diplomat from the region, was that Minsk Group mediating countries were notified, and that fearing a serious situation, urgent communications between the U.S. State Department and Baku resulted in the pullback. Crisis Group interview, diplomat, Washington DC, May 2012.

³⁵ Foremost is the relatively small Heritage Party, whose leader, the American-born Raffi Hovannisian, claims the president's 2013 re-election was marred by fraud. Sargsyan defeated Hovannisian by a margin of 58-37 per cent, thus avoiding a runoff, but his showing was weaker than expected, since most of his challengers, including Hovannisian, were considered to have limited appeal. Hovannisian is travelling the country trying to whip up anti-government sentiment, but it is unlikely he can muster on his own anywhere near the critical mass needed to engineer his promised "social revolution". Crisis Group telephone interviews, political analysts, Yerevan, September 2013.

³⁶ For more information, see Crisis Group Europe Report N°217, *Armenia: An Opportunity for Statesmanship*, 25 June 2012.

³⁷ Armenia's CSTO membership and military alliance with Russia have often been described as a "marriage of convenience", motivated by Azerbaijan's ability to greatly out-spend it militarily and thus eventually threaten its hold over Nagorno-Karabakh, the occupied territories or even its na-

At the same time, Sargsyan had since 2009 begun to lessen reliance on Moscow by pursuing expanded ties with Brussels, joining its “Eastern Partnership” and beginning talks on an Association Agreement and a Deep and Comprehensive Free Trade Area (DCFTA).³⁸ Ties with the Kremlin became increasingly icy over this modest “Westward drift”, especially when Sargsyan ruled out joining either the Moscow-led Customs Union or a new Eurasian Union, widely viewed as a pet project of Russian President Vladimir Putin.

Russia made its dissatisfaction clear in June 2013 by sharply increasing the price it charged Armenia for natural gas. The resulting higher cost of electricity and public transport pushed up inflation and set off several street protests.³⁹ That same month Russia delivered \$1 billion worth of sophisticated weapons to Azerbaijan, and in August Putin made an official state visit to Baku, without a matching stop in Yerevan.⁴⁰ Nonetheless, the EU and Armenia finalised work on their agreement in July and announced it would be initialled in November. But in September, Putin invited President Sargsyan to the Kremlin, where the Armenian president did a stunning about-face, indicating Yerevan would join the Customs Union and eventually the Eurasian Union, essentially walking away from four years of negotiations with Brussels.⁴¹ A top European official has been quoted as saying the EU accord was now “off the table”.⁴²

Armenian analysts say the decision to join the Customs Union may not generate enough domestic controversy on its own to threaten President Sargsyan’s government, since many Armenians fear a full rift could prompt Russia to downgrade or even end its military support. “Russia is a guarantee of Armenia’s security. Armenia is a very important country for Moscow’s presence in the South Caucasus”, said one analyst.⁴³ But the speed of the president’s reversal has caused much criticism. He is now seen as vulnerable to political intrigues from multiple sides. “Even among his own ruling party, Sargsyan now could be accused of weakness, both for mismanaging the relationships with Moscow and the EU and for embarrassing the country by

tional territory. Moscow’s deliveries of free or discounted weapons have helped maintain a relative military balance with Azerbaijan. In exchange, Yerevan has allowed Moscow to keep its military base at Gyumri, though critics have increasingly complained that Russia pays no rent or even utilities.³⁸ The other EU Eastern Partnership countries are Georgia, Moldova, Ukraine, Azerbaijan and Belarus.³⁹ “As Armenia walks tightrope between Russia and EU, public opinion may be shifting”, RFE/RL, 1 August 2013.

⁴⁰ Azerbaijani and Armenian officials both frequently accuse Moscow of playing the two sides against each other to maintain its predominance in the region. It would be positive if Russia were to use its considerable influence in the region to press for a settlement, but there is little history of it employing “soft power”, and analysts generally agree it fears losing much of that influence in the event of a lasting peace agreement. Crisis Group interviews, political analysts and officials, Baku and Yerevan, June 2013.

⁴¹ This came as a shock to many in Armenia, as well as to EU officials who had all along insisted that the country could not be both in Moscow’s “Customs Union” and an EU free-trade partner, because of the radically different requirements and tariff structures. It took just two days after Sargsyan had agreed to join the Customs Union for a senior Russian official reportedly to announce that Moscow would cancel the price increase for natural gas. “Senior member of Republican Party of Armenia says Russia may cut natural gas price after Armenia joins Customs Union”, <http://bit.ly/19tqa12>.

⁴² Swedish Foreign Minister Carl Bildt, quoted in “Armenia still considers initialling Association Agreement with EU”, ArmeniaNow.com, 9 September, 2013. Vigen Sarkisian, the Armenian president’s chief of staff, has nevertheless said Armenia hopes the EU Association Agreement can still be signed in 2013 and that it intends “trying to find ways [for] making these commitments meet and work with both partners in that regard”. “Yerevan says Association Agreement with EU still possible”, RFE/RL, 16 September 2013.

⁴³ Alexander Iskandaryan, “Yerevan was forced to choose this way”, apa.az, 12 September 2013.

giving in to Putin without even attempting to negotiate”, said a prominent Yerevan independent political analyst. “The debacle in Moscow will stimulate more criticism of the president”.⁴⁴

B. Azerbaijan

The result of the 9 October election in which President Ilham Aliev is standing for an unprecedented third term is considered virtually a forgone conclusion, given the massive administrative resources of the state, control over TV networks and patronage systems available to him. The incumbent can also point to vastly improved living standards over the decade since he succeeded his late father, despite acknowledged serious problems with corruption and an economy that has slowed to modest growth after posting the highest rates in the world a few years ago.

Azerbaijan’s fractious opposition parties have fielded a single candidate for the first time: prominent historian Dr Jamil Hasanli, a political newcomer.⁴⁵ It is doubtful, however, that Aliev’s team is worried about him. As the election has approached, some limited, carefully monitored anti-government rallies have been permitted. Government officials seem mainly concerned about post-election disorder. Violent, sudden protests over local government excesses in the provincial cities of Ismaili and Quba over the past two years have obviously disturbed them, leading to more vigilant and aggressive efforts to pre-empt unrest. Some prominent opposition figures have been questioned over allegations of plotting post-election violence or even a coup.⁴⁶ Government officials frequently say foreign-backed forces, including Islamist radicals, are bent on destabilising the country and point to lessons to be learned from the Arab Spring.⁴⁷ Critics dismiss these statements as a pretext for heavy-handed security measures.⁴⁸

V. Conclusion

The Minsk Group needs to make itself heard in a situation that is fragile and potentially explosive. The co-chairs should call immediately for a quiet period at least through the end of 2013, during which rhetoric would be toned down, major military displays cease and both sides refrain from front-line probes. The EU should actively and strongly support this. As political tensions recede in both countries, there should be a concerted effort to restart negotiations, backed by emphatic statements of political will and, if necessary, pressure from international actors. The OSCE should press for an

⁴⁴ Crisis Group telephone interview, Yerevan, September 2013.

⁴⁵ The opposition initially wished to field Moscow-based playwright Rustam Ibrahimbayov, who has both Azerbaijani and Russian citizenship, as its candidate. He was disqualified because the constitution forbids dual nationals from holding the highest office.

⁴⁶ A well-known opposition leader, Eldar Namazov, a former top aide to Heydar Aliev, the current president’s father, was questioned by investigators over allegations regarding plans to spark anti-government riots. “Eldar Namazov questioned in the prosecutor’s office”, *Contact.az*, 29 August 2013.

⁴⁷ Ibrahimbayov, the opposition’s initial choice to contest the election, was on occasion referred to by some detractors as being backed by Russia. See “Jalaloghlu intends to run for president”, *contact.az*, 9 July 2013. Also see comments by presidential administration official Novruz Mamedov: “Новруз Мамедов: Извлечь уроки из ‘арабской весны’” [“Novruz Mamedov: Learn lessons from the ‘Arab Spring’”], *Newtines.az* 6 December 2012.

⁴⁸ Crisis Group interviews, analysts and journalists, Baku, June 2013, and by telephone, September 2013.

increase in its monitoring mandate. Russia should demonstrate with more than words that its principal aim is peace in the South Caucasus, not increased arms sales.

With the international community distracted by more dramatic conflicts, the greatest risk is lassitude: a sense that we have seen all this before, leading to inaction. Yet, the immediate effort required of mediators and other supporters of a peace process is modest. They need to start talking among themselves about the larger risks inherent in the “in-your-face” approach both Baku and Yerevan have adopted. Then, firmly and consistently, the sides need to be brought back to the table before someone decides the time has come to use their expensive new weapons.

Baku/Yerevan/Tbilisi/Brussels, 26 September 2013

Appendix A: Map of South Caucasus



Appendix B: Map of Nagorno-Karabakh and surrounding seven districts



This map is for reference only and should not be taken to imply political endorsement of its content.

Appendix C: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 150 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. Undersecretary of State and 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 is in Brussels, and the organisation has offices or representation in 34 locations: Abuja, Bangkok, Beijing, Beirut, Bishkek, Bogotá, Bujumbura, Cairo, Dakar, Damascus, Dubai, Gaza, Guatemala City, Islamabad, Istanbul, Jakarta, Jerusalem, Johannesburg, Kabul, Kathmandu, London, Moscow, Nairobi, New York, Pristina, Rabat, Sanaa, Sarajevo, Seoul, Tbilisi, Tripoli, Tunis and Washington DC. Crisis Group currently covers some 70 areas of actual or potential conflict across four continents. In Africa, this includes, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Kenya, Liberia, Madagascar, Nigeria, Sierra Leone, Somalia, South Sudan, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Burma/Myanmar, Indonesia, Kashmir, Kazakhstan, Kyrgyzstan, Malaysia, 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, North Caucasus, Serbia and Turkey; in the Middle East and North Africa, Algeria, Bahrain, Egypt, Iran, Iraq, Israel-Palestine, Jordan, Lebanon, Libya, Morocco, Syria, Tunisia, Western Sahara and Yemen; and in Latin America and the Caribbean, Colombia, Guatemala and Venezuela.

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The following institutional and private foundations have provided funding in recent years: Adessium Foundation, Carnegie Corporation of New York, The Charitable Foundation, The Elders, William and Flora Hewlett Foundation, Humanity United, John D. and Catherine T. MacArthur Foundation, Oak Foundation, Open Society Foundations, Open Society Initiative for West Africa, Ploughshares Fund, Rockefeller Brothers Fund, and VIVA Trust.

September 2013

Appendix D: Reports and Briefings on Europe since 2010

Balkans

- The Rule of Law in Independent Kosovo*, Europe Report N°204, 19 May 2010 (also available in Albanian and Serbian).
- Kosovo and Serbia after the ICJ Opinion*, Europe Report N°206, 26 August 2010 (also available in Albanian and Serbian).
- Federation of Bosnia and Herzegovina – A Parallel Crisis*, Europe Report N°209, 28 September 2010 (also available in Bosnian).
- Bosnia: Europe's Time to Act*, Europe Briefing N°59, 11 January 2011 (also available in Bosnian).
- North Kosovo: Dual Sovereignty in Practice*, Europe Report N°211, 14 March 2011.
- Bosnia: State Institutions under Attack*, Europe Briefing N°62, 6 May 2011 (also available in Bosnian).
- Macedonia: Ten Years after the Conflict*, Europe Report N°212, 11 August 2011.
- Bosnia: What Does Republika Srpska Want?*, Europe Report N°214, 6 October 2011 (also available in Bosnian).
- Brčko Unsupervised*, Europe Briefing N°66, 8 December 2011 (also available in Bosnian).
- Kosovo and Serbia: A Little Goodwill Could Go a Long Way*, Europe Report N°215, 2 February 2012.
- Bosnia's Gordian Knot: Constitutional Reform*, Europe Briefing N°68, 12 July 2012 (also available in Bosnian).
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- Serbia and Kosovo: The Path to Normalisation*, Europe Report N°223, 19 February 2013 (also available in Albanian and Serbian).
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Caucasus

- Abkhazia: Deepening Dependence*, Europe Report N°202, 26 February 2010 (also available in Russian).
- South Ossetia: The Burden of Recognition*, Europe Report N°205, 7 June 2010 (also available in Russian).
- Azerbaijan: Vulnerable Stability*, Europe Report N°207, 3 September 2010.
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- Georgia: The Javakheti Region's Integration Challenges*, Europe Briefing N°63, 23 May 2011.
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- Tackling Azerbaijan's IDP Burden*, Europe Briefing N°67, 27 February 2012 (also available in Russian).
- Armenia: An Opportunity for Statesmanship*, Europe Report N°217, 25 June 2012.
- The North Caucasus: The Challenges of Integration (I), Ethnicity and Conflict*, Europe Report N°220, 19 October 2012 (also available in Russian).
- The North Caucasus: The Challenges of Integration (II), Islam, the Insurgency and Counter-Insurgency*, Europe Report N°221, 19 October 2012 (also available in Russian).
- Abkhazia: The Long Road to Reconciliation*, Europe Report N°224, 10 April 2013.
- The North Caucasus: The Challenges of Integration (III), Governance, Elections, Rule of Law*, Europe Report N°226, 6 September 2013.

Cyprus

- Cyprus: Bridging the Property Divide*, Europe Report N°210, 9 December 2010 (also available in Greek and Turkish).
- Cyprus: Six Steps toward a Settlement*, Europe Briefing N°61, 22 February 2011 (also available in Greek and Turkish).
- Aphrodite's Gift: Can Cypriot Gas Power a New Dialogue?*, Europe Report N°216, 2 April 2012 (also available in Greek and Turkish).

Turkey

- Turkey and the Middle East: Ambitions and Constraints*, Europe Report N°203, 7 April 2010 (also available in Turkish).
- Turkey's Crises over Israel and Iran*, Europe Report N°208, 8 September 2010 (also available in Turkish).
- Turkey and Greece: Time to Settle the Aegean Dispute*, Europe Briefing N°64, 19 July 2011 (also available in Turkish and Greek).
- Turkey: Ending the PKK Insurgency*, Europe Report N°213, 20 September 2011 (also available in Turkish).
- Turkey: The PKK and a Kurdish Settlement*, Europe Report N°219, 11 September 2012 (also available in Turkish).
- Turkey's Kurdish Impasse: The View from Diyarbakır*, Rapport Europe N°222, 30 novembre 2012 (also available in Turkish).
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