

WHAT THE SOUTH CAUCASUS COULD BE:

## EXPLORING THE ROLE OF ECONOMIC INITIATIVES AS PEACE BUILDING TOOLS IN THE NAGORNO-KARABAKH CONTEXT

EXPERT ROUNDTABLE WITH INTERACTIVE DISCUSSION  
HOSTED AT THE EUROPEAN PARLIAMENT, BRUSSELS, MARCH 27, 2014

### SUMMARY OF CONCLUSIONS

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## COMMON HERITAGE, SHARED FUTURE?



## **Overview**

On 27 March 2014, the European Geopolitical Forum (EGF), in cooperation with international NGO partners, organized an expert roundtable on ***“Exploring the Role of Economic Initiatives as Peace Building Tools in the Nagorno-Karabakh Context”***. This event was attended by more than 40 experts from the South Caucasus region, Brussels-based think tanks, and international organizations who engaged in discussion in a constructive, informal ‘atmosphere of exchange’. The roundtable focused constructive energies on discussing a common future in an economically integrated South Caucasus, as a way to build mutual trust aimed at helping to overcome the current stalemate within political and security negotiations.

Following up its recent study titled ***“A Pragmatic Review of Nagorno-Karabakh Conflict Resolution: Could Economic Incentives Help Break the Deadlock?”***, EGF has deepened its research on ‘economic incentives as peace building tools in the unresolved conflict over Nagorno-Karabakh’, and plans to publish a new study towards the end of this year. This research will include extensive outreach activity consisting of consultation rounds with stakeholders and presentation of the research findings. The roundtable discussion on 27 March was the first outreach event, and it was comprised of three main interactive discussion sessions. Each session was initiated by a few ‘discussion openers’, and followed by fully interactive discussion under the Chatham House Rule.

### ***Session I: Missed opportunities and lessons learned from conflict resolution processes***

The year 2014 marks 20 years since the signing of the cease fire agreement over the Nagorno-Karabakh (NK) conflict, following which peace negotiations commenced under the auspices of the Minsk Group. The aim of this session was to reflect on opportunities lost with the subsequent peace process and to consider lessons which may have been learned for future occasions. While the general view that the peace process was currently in a state of stalemate seemed to prevail, speakers were asked to elaborate on whether considerations of ‘missed opportunities’ could provide some clues for onward normalization and peaceful coexistence between Armenian and Azerbaijani peoples.

The following **conclusions**, which are relevant to the topic of this session, were drawn from the speakers’ briefings and the ensuing discussion:

- Throughout the 20 years of post-conflict tension in NK, there have been a broad range of missed opportunities both in political and security aspects of the conflict resolution process, and in the economic field. They have fundamentally slipped the South Caucasus region into the current state of fragmentation, where Armenia, Azerbaijan and Georgia are heading towards different political, socio-economic and security horizons.
- It is well known that the inability to solve the NK conflict so far was to a large extent linked to the dilemma regarding the prevailing legal principle that would be applicable: preserving the territorial integrity of Azerbaijan, or the right to self-determination of the Armenian population in NK. In this context, the Madrid Principles proposed by the co-Chairs of the OSCE Minsk Group were labelled by

one speaker as a “golden missed opportunity”, since they would provide both application of the principles of self-determination for Nagorno-Karabakh itself, and of preservation of the territorial integrity of Azerbaijan with regard to the seven districts around Nagorno-Karabakh. However, neither Azerbaijani nor Armenian participants manifested enthusiasm for the revival of this “golden missed opportunity”.

- One international expert expressed support for the Madrid Principles as they would ensure “recognition of territorial sovereignty without independence”. This might offer the opportunity to temporarily transform some of the Azerbaijani territories around NK, currently under Armenian control, into “free” spaces. Those “free” spaces might become the terrain of Armenian-Azerbaijani cooperation in the South Caucasus, possibly in the shape of common business ventures.
- The 2009 rapprochement between Armenia and Turkey was also deemed to be a missed opportunity, for instead of adding synergy to conflict resolution, it became part of the current stalemate.
- Economic missed opportunities were also discussed: for example, participation of Armenia in the energy flow from the Caspian Sea to Europe could have offered a guarantee for Armenia’s independence, just as it did for Azerbaijan and Georgia. Likewise, the high potential for agricultural development of Western Azerbaijan has been blocked by the NK conflict.
- The main conclusion of EGF’s published study on NK that: “economic incentives, cannot, on their own, substitute a political settlement to the conflict, including its territorial dimensions, but they could play a key role in confidence building” was echoed by many speakers. For example, an international speaker thought that, while economic projects are not going to be a panacea for conflict resolution in NK, expert discussion on economic issues is essential to preparing the ground for the presidents of Armenia and Azerbaijan to make “tough decisions” on a compromise solution to the NK conflict. Others talked about this expert roundtable as potentially opening an economic chapter of Track 2 diplomacy in NK conflict resolution.
- Another speaker, who called for strengthening the inter-connectedness of Track 1 and Track 2 diplomacy on conflict resolution in NK, welcomed the composition of the body of experts participating at this roundtable, for it included both people who played key roles in Track 1 and who participated in Track 2 events.
- In order to move political negotiations forward from the current stalemate, the following suggestions were made:
  - Each party to the NK conflict should demonstrate its political will to take risks while accepting a compromise solution. That would involve ceasing to demonize and threaten the other party, and adopting a changed narrative on conflict resolution reflecting a constructive, dialogue-oriented approach. As long as one side demonizes the other, there will be no way for presidents Alyiev and Sargsyan to achieve a political breakthrough, nor will they be able to demonstrate to the other president that they are able to persuade their people to accept a compromise solution. A dialogue on economic issues may have an important role to play in preparing the political and psychological conditions for readying wider circles of Armenian and Azerbaijani societies to accept a negotiated compromise solution.

- Armenia should give concrete signs that it is committed to giving up the political and security status quo, in exchange for Azerbaijan demonstrating its commitment to remove the use of force from its conflict resolution options.
- The application of military confidence-building measures (CBMs) (such as a partial demining of the territories around NK to enable some economic activities, or removing snipers from the line of contact) is essential to peaceful conflict resolution. The role of third parties, whose neutrality is not questionable, in monitoring the implementation of military CBMs and in fairly reporting on their failings, remains critical.
- Negotiations should be maintained at the presidential level in spite of the ensuing discomfort created for the two presidents, since this is the only possible way to have the parties agree on a political compromise.
- Create a “Commission on Difficult Issues”, as a non-political, non-binding mechanism of rapprochement between Armenia and Azerbaijan, which would support the work of the Armenian and Azerbaijani negotiating teams in the Minsk Group format. For example, the Commission on Difficult Issues could test certain conflict resolution scenarios against the availability of economic incentives.
- Promote democracy and civil society building in both Armenia and Azerbaijan, to help Track 2 diplomacy work.
- Negotiations within the OSCE Minsk Group should be led with fair and unbiased cooperation between the co-Chairs. In the past, this proved rather difficult, in particular because Russia has had a different range of interests to defend in the South Caucasus compared to France and the US.
- Washington should send high level signals to the conflicting parties, and to Russia, that it is deeming the resolution of the NK conflict as a very important strategic issue.
- The role and regional interests of Iran in the South Caucasus should not be underestimated. For example, in the field of energy, Iran assumed a middleman role between Azerbaijan and Armenia: they buy gas from Azerbaijan, resell it to Armenia to produce electricity, which is then purchased back by Iran. The links between the South Caucasus and the broader geopolitics of the Middle East might be also relevant for Iranian interests.

### ***Session II: Can economic initiatives make a difference for Karabakh?***

After publishing the previously discussed initial research, EGF was invited by Armenian, Azerbaijani and international conflict stakeholders to provide more concrete evidence on their possible roles in confidence building. The aim of this session was to explore, with roundtable participants, ideas for ‘projects of common economic interest’ for future post-conflict regional economic development scenarios. More specifically, speakers were asked to suggest economic initiatives in the sphere of, for example, energy, transport and telecommunications infrastructure, trade, agriculture, tourism or other areas which would be technically feasible, could attract investment, and be justified in commercial terms.

The following points were considered relevant to the **conclusions** of this session:

- Over the past years there was relatively little research on economic infrastructure projects in the South Caucasus. However, one speaker shared information about a recent research study focused on a costs/benefits analysis of the rehabilitation of the former Soviet railway Baku-Fizuli-Meghri-Nakhichevan-(Yerevan)-Gyumri-Kars, which would cross Azerbaijan, Armenia, Turkey, and some of the Azerbaijani districts around NK currently under Armenian control. A comparison to the costs of the railway Baku-Tbilisi-Alkhalaki-Kars, which is currently under construction, was also made. The total estimated costs of the rehabilitation of the former Soviet railway was calculated at 433 million USD, which would be much less than the 700 million – 1 billion USD expected for the new railway going around Armenia. In addition, building a new Kars-Nakhichevan railway would cost another 1 billion USD. In terms of benefits, it was calculated that Armenia, Turkey and Nakhichevan would get the most out of the rehabilitation of the former Soviet railway, although, apparently, in order to be a profitable investment it needs 3-4 times more freight than was annually transported on that railway in Soviet times. One important challenge in conducting this study was the lack of reliable figures allowing an accurate calculation of benefits, given the major socio-economic changes since the collapse of the Soviet Union.
- Several speakers noted that, on the one hand, economic projects cannot be included in the category of ‘traditional’ CBMs, and, on the other hand, there are major practical obstacles to implementing them while a political solution to the conflict is missing. Furthermore, in reaction to opinions highlighting a certain lack of interest from Azerbaijan for economic cooperation with Armenia, one speaker thought that such projects might not even work in practice if not all stakeholders were economically motivated to participate. Therefore, creating a platform for exchange of information on, for example, energy, transport, trade issues, including their possible social implications, or the rehabilitation of the territories affected by the conflict and the return of IDPs to their homeland, might be considered as a soft form of confidence building cooperation which would be closer to the purposes of Track 2 diplomacy than to CBMs. Economic projects which might be discussed should be feasible, not politically sensitive, and important enough, in terms of their potential social implications, to contribute to changing people’s mindsets.
- While the ability to use energy projects as tools for conflict resolution was questioned by some participants, both Armenian and Azerbaijani experts admitted that a dialogue on energy cooperation opportunities might be useful since there are misunderstandings on both sides of the current realities, policies and future challenges in the other country. For example, Armenian and Azerbaijani experts could not reach agreement on whether or not producing electricity in Armenia from imported Azerbaijani gas would be profitable for both sides, and why. According to the Azerbaijani expert, Armenia buying gas from Azerbaijan at 100 USD/1000 cubic meters, instead of from Russia (currently at 189 USD/1000 cubic meters) would save 160 million USD/year, while exporting electricity generated from that gas to Iran or Turkey might add another 100 million USD to Armenian coffers. In response, the Armenian expert questioned the economic motivations of Azerbaijan to sell cheaper gas to Armenia, Iran’s willingness to pay higher prices for Armenian electricity, and the technical capability of Turkey to import electricity from Armenia. In addition, Armenia would also need investment in modernizing its electricity production capacities, which is currently sought from Russia and Iran. Neither possible interests nor the roles of external players, such as Russia, the EU, Iran and Turkey, in supporting Armenian-Azerbaijani energy cooperation in a

post-conflict scenario were perceived in a similar way. However, suspicions that the other party was bluffing were apparent in that discussion, displaying the lack of mutual trust among energy experts, most likely due to diverging mindsets shaped by the status of the overall relationship between the two countries.

- For the past 20 years, the economic blockade by Azerbaijan and Turkey against Armenia has hampered regional economic cooperation, including in the energy sector. It has basically forced Armenia to seek alternative energy cooperation partners, such as Russia and Iran. Consequently, instead of achieving its original political goal of forcing Armenia to give in on the settlement of the NK conflict, this economic blockade has increased the dependence of the Armenian energy sector on Russian interests. This could make Armenia's participation in any future common economic energy project with Azerbaijan subject to Russian approval.
- On the other hand, trade cooperation was deemed to be a more appropriate starting point for bilateral economic cooperation between Armenia and Azerbaijan, possibly in combination with some sort of small scale (at the level of neighbouring towns or villages) green energy cooperation. In that context, the critical role of the private sector was highlighted as the driving force in energizing a regional network and in making economic cooperation possible. It was argued that promoting small scale enterprises would increase constituencies' support for peace in both countries. In fact, the involvement of relevant business people in the discussion on regional economic cooperation in post-conflict scenarios, when the time was ripe, was a recurring message from a number of speakers.
- Another point of convergence in the discussion was that a blueprint for economic development in the South Caucasus was missing. One Armenian speaker, supported by other Armenian and international experts, suggested that developing a "strategic plan for regional development", and publishing it in both countries with a view towards starting a debate on the advantages and disadvantages of choosing peace over the current state of war might increase the stakes for, and thus might facilitate, a political compromise on the resolution of the NK conflict. This proposal might lead to a new way forward for ongoing EGF research, if seen in connection with the proposal of an Azerbaijani expert during the EGF study trip to Baku in early March 2014 to discuss and agree with Armenian counterparts a roadmap setting out priorities and a logical sequence to the implementation of post-conflict economic projects. These might then be chronologically linked to the implementation plan of a future peace agreement.
- Topics of potential interest for economic dialogue in the South Caucasus might also include: increasing connectivity of regional transport networks to European transport systems and the potential for regional countries to harmonize their taxation policies given their different strategies for regional integration.
- The case studies of Northern Ireland and Cyprus might offer interesting insights into economic aspects of conflict resolution in NK. For example, one Azerbaijani speaker highlighted three major factors that helped conflict resolution in Northern Ireland (i.e. EU membership by both state actors involved, a bolder role of international leaders and mediators, and large amounts of foreign investment). From this perspective, a deeper insight into the lessons learned from Northern Ireland and how they could be best applied to the NK conflict resolution would be needed.

### ***Session III: Consensus building techniques and regionalism in the South Caucasus***

While EGF's longer term vision envisages the South Caucasus as an economically developed, integrated and prosperous region, where greater power is devolved to local levels of governance, at present this type of scenario is a long way off. However, consensus already exists amongst stakeholders that a regional development strategy may be highly desirable. A diversity of peoples will need to live and coexist with one another in South Caucasus territories for centuries to come. The aim of this session was to explore practical consensus building techniques and share people-to-people experiences. In particular, consensus building techniques that might give rise to institutions for the promotion of regional strategies in the Caucasus were to be considered, since such strategies could play a key role in enabling mutual trust by committing the stakeholders to greater levels of interdependence and building regionalism.

This slightly shorter and more technical session highlighted the following **conclusion**:

- The overall perspective on the feasibility of post-conflict regionalism building in the South Caucasus was quite similar for both Armenian and Azerbaijani experts. While both parties agreed that the historical background and the lack of common socio-political values were a heavy burden to region building, they also recognized that forging a common future in the aftermath of the NK conflict would be a worthwhile effort. The current geopolitical context was not conducive to either regional cooperation nor to integration. However, in a post-conflict context, the mutual need to pursue economic development and social welfare in a globalized world might be a powerful driver towards regional cooperation and better policy coordination between the two countries. More concretely, the possibility for Armenia to join the existing regional cooperation framework between Turkey, Azerbaijan and Georgia, in the aftermath of the NK conflict, was proposed by an Azerbaijani expert.

In his concluding remarks, Dr Marat Terterov, the Director of EGF, proposed a number of very broad and uncontroversial principles which were meant to form the Brussels consensus on post-conflict regional integration scenarios in the South Caucasus, including: the right of all people to live in peace and security; a shift from preparing for war to building enduring peace; good neighbourly relations as a basis for peace building; the right of all people to strive for economic prosperity; the right of all IDPs and refugees to return to their homes and/or lands, and live there in peace and security.