

Armenia and Azerbaijan: Preventing War

I. OVERVIEW

An arms race, escalating front-line clashes, vitriolic war rhetoric and a virtual breakdown in peace talks are increasing the chance Armenia and Azerbaijan will go back to war over Nagorno-Karabakh. Preventing this is urgent. Increased military capabilities on both sides would make a new armed conflict in the South Caucasus far more deadly than the 1992-1994 one that ended with a shaky truce. Neither side would be likely to win easily or quickly. Regional alliances could pull in Russia, Turkey and Iran. Vital oil and gas pipelines near the front lines would be threatened, as would the cooperation between Russia and Turkey that is central to regional stability. Another refugee crisis would be likely. To start reversing this dangerous downward trend, the opposing sides should sign a document on basic principles for resolving the conflict peacefully and undertake confidence-building steps to reduce tensions and avert a resumption of fighting.

There has been significant deterioration over the past year. Neither government is planning an all-out offensive in the near term, but skirmishes that already kill 30 people a year could easily spiral out of control. It is unclear if the leaders in Yerevan and Baku thoroughly calculate the potential consequences of a new round of tit-for-tat attacks. Ambiguity and lack of transparency about operations along the line of contact, arms deals and other military expenditures and even the state of the peace talks all contribute to a precarious situation. Monitoring mechanisms should be strengthened and confidence-building steps implemented to decrease the chance of an accidental war.

At the same time, more has to be done to change a status quo that is deeply damaging to Azerbaijan; 586,000 Azeris are internally displaced (IDPs) from Nagorno-Karabakh and adjacent areas, and some 14 per cent of the country's territory is occupied. Otherwise, Azerbaijan public opinion and leadership will feel justified to use the military assets Baku has been accumulating at an increased rate: the already substantial defence budget is slated to rise by some 45 per cent between 2010 and 2011, to \$3.1 billion out of a total \$15.9 billion state budget.

Weapons purchases, belligerent rhetoric and offensive posturing along the front lines may be tactics to pressure Yerevan into concessions at the negotiating table, but

they also could be signs of preparation to use force before the country's oil revenues are projected to decline after 2014. Similarly, Armenia and Nagorno-Karabakh – aware of this time line and the risk of a nationalist gamble – may be tempted to try a pre-emptive strike. Azerbaijan's armed forces are estimated at nearly 95,000, Armenia's and Nagorno-Karabakh's at around 70,000. The two sides' arsenals are increasingly deadly, sophisticated and capable of sustaining a protracted war. Both can hit large population centres, critical infrastructure and communications.

Conflict prevention would be best ensured by signature of the basic principles agreement, first outlined by the Organisation for Security and Cooperation in Europe (OSCE) in 2005 and discussed since then between Presidents Sargsyan (Armenia) and Aliyev (Azerbaijan), with the help of the U.S., Russia and France OSCE Minsk Group co-chairs. At the OSCE Summit in Astana in December 2010, the two presidents reaffirmed their commitment to find a final settlement based on international law, including six points that have generally been accepted as part of the basic principles, but they did not sign the long-awaited agreement. Further deterioration in the security environment is likely to make agreement on the basic principles more difficult.

2010 saw little progress in the Minsk Group-mediated talks. Both capitals argue they have offered the maximum concessions. President Aliyev publicly stated that he largely accepted the basic principles as elaborated in February 2010, while President Sargsyan remained noncommittal. The Azerbaijani leadership has begun to warn that diplomacy has been in vain and threaten that it may withdraw from negotiations if Yerevan continues "simulating talks".

President Sargsyan has little domestic room for manoeuvre. Most Armenians feel the risks of changing the status quo outweigh the benefits. They say they would have to withdraw without a real guarantee of security, in return for a vaguely-defined "interim status" for Nagorno-Karabakh that would include a promise of a vote on final status but no indication of when it would occur and whether it could lead to independence. Armenians initially called the seven districts they occupy around Nagorno-Karabakh a "security zone", but a growing number now regularly refer to them as the "liberated territories" or "historic Armenian lands" that should never be returned to Azerbaijan. Azerbaijanis insist that any peace settlement must preserve

their country's territorial integrity and guarantee IDPs the right of return, including to Nagorno-Karabakh, while Armenians seek the right to full self-determination for the (Armenian) population of Nagorno-Karabakh, including the possibility of independence.

To reduce the dangers of a new war and improve the environment for conflict resolution:

- ❑ Armenia and Azerbaijan should formally endorse the basic principles, promote more pragmatic public discussion on the value of such an agreement, reduce belligerent rhetoric and not demand at this stage that a fixed timeframe be set or a specific outcome be pre-ordained or excluded in a referendum to determine Nagorno-Karabakh's final status.
- ❑ The parties should undertake confidence-building measures along the front lines, including withdrawal of snipers from the line of contact (in accordance with OSCE recommendations), suspension of large-scale military exercises near the line of contact, the pullback and cessation of use of any artillery and a halt to trench advancements towards each other's positions. Armenia should stop sending regular army conscripts to serve in Nagorno-Karabakh.
- ❑ Armenia and the de facto Nagorno-Karabakh authorities should cease supporting activities that make the status quo more intolerable for Azerbaijan and thus use of force seem a more attractive option for its leaders and public, such as settling Armenians in occupied Azerbaijani territories, renaming previously Azerbaijani majority towns and undertaking unilateral archaeological excavations.
- ❑ Both Armenia and Azerbaijan should accede to the Rome Statute of the International Criminal Court.
- ❑ The international community should step up its efforts to discourage the dangerous arms race in the region. In particular Russia, as an OSCE Minsk Group co-chair, but also others, should uphold the non-binding UN and OSCE arms embargoes on Armenia and Azerbaijan.
- ❑ The OSCE, with full support of the Minsk co-chair countries, should encourage the parties to broaden its observer mission's mandate to authorise investigation of claimed violations and spontaneous monitoring, including with remote surveillance capabilities, and to agree to a significant increase in the number of monitors, as an interim measure until a peacekeeping force is deployed as part of the implementation of a peace agreement.

A subsequent briefing will examine new approaches for advancing the negotiations and implementing any deal and provide recommendations on additional steps external parties could take in support of peace.

II. DANGER SIGNS

Conflict over the mountainous Nagorno-Karabakh region has existed since the end of the First World War. The collapse of the Soviet Union in 1991 sparked the beginning of full-scale war, after several years of antagonism and violence between Armenians and Azerbaijanis. The 1992-1994 conflict resulted in the deaths of some 22,000 to 25,000 people and created more than one million refugees and IDPS in the two countries. Ethnic Armenian forces took control of Nagorno-Karabakh and also conquered considerable Azerbaijani territory adjacent to it. Azerbaijan insists that the region is part of its territory; Armenia argues that the Armenian majority living in Nagorno-Karabakh has the right to self-determination and independence. A fragile ceasefire has been in effect since May 1994.¹

Since late 2009, when peace talks began to stall, Azerbaijan (pop. 8,303,512) and Armenia (pop. 2,966,802) have skirmished with increasing frequency along the front lines,² escalated their arms race and resorted to highly inflammatory rhetoric.³ Each is apparently using the clashes and the threat of a new war to pressure its opponent at the negotiations table, while also preparing for the possibility of a full-scale conflict in the event of a complete breakdown in the peace talks.

A premeditated offensive by either is unlikely at this point, but there is a growing risk that the increasing front-line tensions could lead to an accidental war.⁴ Moreover, if there is no breakthrough in the talks, and especially as Azerbaijan's energy-based economic growth begins to stall within a few years, there is a real chance that one side or the other could decide to go on the offensive.

¹ For more background on the conflict, see Crisis Group Europe Report N°187, *Nagorno-Karabakh: Risking War*, 14 November 2007.

² "Armenia", CIA World Factbook, updated 12 January 2011, and "Azerbaijan", *ibid*, updated 18 January 2011. Azerbaijan and Armenian official sources give higher numbers, 8,997,400 and 3,259,100 respectively. "Azerbaijan in Figures", The State Statistical Committee of the Republic of Azerbaijan, www.azstat.org; "Number of de jure population of the Republic of Armenia" (in Armenian), National Statistical Service of the Republic of Armenia, www.armstat.am.

³ Crisis Group warned in 2009 that the Nagorno-Karabakh status quo is becoming increasingly difficult to sustain. See Europe Briefing N°55, *Nagorno-Karabakh: Getting to a Breakthrough*, 7 October 2009.

⁴ Crisis Group interviews, Baku, Yerevan, November 2010; Richard Giragosian, "Готовиться к случайной войне" [Getting ready for an accidental war], *Lragir* (Yerevan newspaper, online, in Russian), 6 July 2010.

A. ESCALATION ON THE LINE OF CONTACT

Since the 1994 ceasefire agreement, formidable defensive fortifications have been erected and expanded along the 110-mile line of contact separating Azerbaijani and Armenian forces, replete with underground tunnels and minefields.⁵ The intensity and number of clashes and casualties are increasing. Nagorno-Karabakh de facto authorities allege that ceasefire violations rose by 53 per cent in 2010.⁶ In August and September, there were between three and eight exchanges of small arms fire daily, lasting five to ten minutes, on different parts of the line of contact. While exchanges of fire used to be mainly limited to specific areas along the line of contact, incidents now occur over a much broader terrain.⁷ At least 25 soldiers were killed during the year, up from nineteen in 2009.⁸ While that was less than the some 30 mainly soldiers who were killed in 2008, local experts believe the real casualty figures were much higher.⁹

The recent violence appears better organised, even though information is sketchy and contradictory. On 18 February 2010, three Azerbaijani servicemen were killed and one was wounded, reportedly in intensified sniper incidents.¹⁰ The year's most serious fighting, on 18-19 June near the abandoned village of Chaylu in north-eastern Nagorno-Karabakh, apparently left five soldiers (four Armenian and

one Azerbaijani) dead.¹¹ Azerbaijani experts allege that several dozen Armenians were killed in the overnight raid, and that the dead Azerbaijani, Mubariz Ibrahimov, carried out the attack alone.¹²

Other military analysts and the Armenian government claimed that an elite Azerbaijani commando unit carried out the operation as a probe of Armenian defensive positions and a warning that Baku's improved units could make quick and deadly strikes and might do so again, especially if there is no progress in the peace talks.¹³ The incident occurred hours after an inconclusive Russian-sponsored round in St. Petersburg. The Armenian front-line units that came under attack reportedly "panicked" and initially fled, producing some concern among military officials in Yerevan that their troops' training and combat experience may not be as superior as often claimed.¹⁴ But it is difficult to verify exactly what happened, as one personal representative of the OSCE, together with five field assistants, are the only internationals monitoring the front line. They conduct observations once or twice a month after notifying the parties of the time and place, seriously limiting their investigation capabilities.¹⁵

Tit-for-tat attacks risk escalating the situation. The 18 June incident may have been in retaliation for the killing, several days earlier, of an Azerbaijani soldier by sniper fire in the Fizuli district further south. Another Azerbaijani soldier was killed on 21 June, possibly in retaliation for what happened on the 18th. Four Azerbaijani servicemen died in separate incidents on 31 August and 4 September along the north-eastern edge of Nagorno-Karabakh.¹⁶

⁵ Video and journalistic observations made available to Crisis Group, December 2010.

⁶ Compared with 2009. "Количество нарушений на передовой линии в 2010 году увеличилось на 53%" [The number of ceasefire violations in 2010 increased by 53 per cent], *Regnum* (Russian online media), 28 December 2010.

⁷ Crisis Group analysis of letters from the Permanent Representative of Azerbaijan to the UN and the Permanent Representative of Armenia to the UN, addressed to the UN Secretary-General, July-December 2010.

⁸ Crisis Group interview, military expert, Baku, December 2010; "44 смертных случая в Вооруженных Силах Армении" [44 deaths in the Armenian armed forces], *1in.am* (in Russian), 26 November 2010.

⁹ Crisis Group interviews, Baku, December 2010. "Statement", OSCE Minsk Group co-chairs, 6 March 2009, www.osce.org/item/36664.html. There are no exact casualty figures since 1994, but most observers agree that as many as 3,000 people, mostly soldiers, have died. Crisis Group phone interview, Jasur Sumerinli, military expert, August 2009.

¹⁰ "Минобороны Азербайджана прокомментировало инцидент на линии соприкосновения войск Азербайджана и Армении" [Defence ministry commented on the incident on the line of contact of Armenian and Azerbaijani troops], *Day.az* (in Russian), 19 February 2010. Two soldiers were killed in the Terter region, one in Agdam district. The Azerbaijani defence ministry claimed Armenian forces also incurred losses but did not provide figures. The Armenian side reported no losses.

¹¹ "Four Armenian soldiers killed in Karabakh fighting", RFE/RL, Armenian service, 19 June 2010. "Минобороны Азербайджана прокомментировало факт потерь армянских военнослужащих в результате перестрелки на линии фронта" [Defence ministry commented on the Armenian servicemen deaths as a result of frontline shootings], *Day.az* (in Russian), 19 June 2010.

¹² Crisis Group interviews, Baku, December 2010-January 2011.

¹³ Crisis Group interview, military analyst, Yerevan, November 2010. "Letter dated 13 August 2010 from the Permanent Representative of Armenia to the United Nations addressed to the Secretary-General", A/64/898-S/2010/436.

¹⁴ Crisis Group interview, military analyst, Yerevan, November, 2010.

¹⁵ The OSCE Minsk Group co-chairs condemned the incident on 21 June but did not publicly provide any details clarifying how many were killed and how. See www.osce.org/mg/69458.

¹⁶ "Армянские войска совершили диверсию на территории Азербайджана, есть потери с обеих сторон" [Armenian troops undertook a sabotage attack on Azerbaijani territory, there are casualties from both sides], *Day.az* (in Russian), 1 September 2010; and "Тело одного из погибших при столкновении с армянскими военными азербайджанских солдат предано земле" [Body of one of the dead Azerbaijani soldiers in a clash

Azerbaijani defence ministry officials confirmed the casualties and claimed three Armenian soldiers were killed in the latter incident,¹⁷ although the Armenians said there were no fatalities on their side.¹⁸

Though most military activity is still limited to small arms, snipers are being used more frequently, and more sophisticated weaponry is making an appearance.¹⁹ OSCE monitors verified an Azerbaijan claim that an Armenian artillery shell from a 122-mm GRAD launch system landed in the Azerbaijani-controlled part of the front-line Terter district on 17 December 2010 – only the second reported use of artillery since the 1994 ceasefire.²⁰ Azerbaijan now regularly undertakes over-flight surveillance along the line of contact to improve military intelligence, including with newly-procured unmanned aerial vehicles (UAVs).²¹

Ceasefire violations visibly increased after the 18 June incident and peaked in August-October before decreasing in November.²² The dip may be due to the 27 October

with Armenian troops is buried], Day.az (in Russian), 5 September 2010.

¹⁷“Армянские войска совершили диверсию на территории Азербайджана, есть потери с обеих сторон” [Armenian troops undertook a sabotage attack on Azerbaijani territory, there are casualties from both sides], op. cit.

¹⁸Nagorno-Karabakh’s de facto defence ministry claimed seven Azeri dead and wounded on 31 August, and one Armenian wounded. “Another deadly fire fight reported in Karabakh”, RFE/RL Armenian service, 1 September 2010. According to various sources, an Armenian soldier was killed on 26 October, allegedly by sniper fire. Azerbaijani soldiers were killed on 28 October and 19 November 2010. See, “Letter dated 3 December 2010 from the Permanent Representative of Azerbaijan to the United Nations addressed to the Secretary-General”, A/65/601–S/2010/615.

¹⁹Crisis Group telephone interview, U.S. official, January 2011.

²⁰“OSCE representative observed the location where the ‘Grad’ missile landed in Terter district”, Turan press agency, 23 December 2010. Armenia claimed Azerbaijan used artillery for the first time since 1994 during the March 2008 clashes near the Azerbaijani town of Ter-Ter, close to Nagorno-Karabakh. Crisis Group Briefing, *Nagorno-Karabakh: Getting to a Breakthrough*, op. cit., p. 2.

²¹Crisis Group interviews, military and journalistic sources, Yerevan, November 2010.

²²According to Armenian defence ministry reports, in June 2010 there were 81 ceasefire violations along the Armenia-Azerbaijan border and 347 violations on the Nagorno-Karabakh line of contact. In September these figures were 190 and 1,258 respectively. In November they decreased to 41 and 195 and in December were 52 and 354. See, “Letter dated 9 July 2010 from the Chargé d’affaires a.i. of the Permanent Mission of Armenia to the United Nations addressed to the Secretary-General”, A/64/863–S/2010/373; “Letter dated 29 December 2010 from the Chargé d’affaires a.i. of the Permanent Mission of Armenia to the United Nations addressed to the Secretary-General”, A/65/677–S/2010/676.

Russian-facilitated Astrakhan meeting at which the Armenian and Azerbaijani presidents agreed to strengthen the ceasefire regime and engage in military confidence building, starting with exchange of bodies.²³ But 2011 started off badly, with at least two Azerbaijani soldiers killed along the line of contact on 17 and 26 January 2011 and an Armenian fatally shot on 20 January.²⁴

On 24 June 2010, Azerbaijan conducted its most serious military exercise ever, overseen personally by President Aliyev and involving more than 4,000 troops, 100 tanks, 77 armoured vehicles, 125 artillery pieces, a squadron of seventeen fighter aircraft and twelve combat helicopters.²⁵ The scenario was a response to “military aggression against Azerbaijan” and included a counter attack to restore territorial integrity.²⁶

Armenian and Karabakh Armenian troops held over ten small and medium-scale military exercises in the occupied territories during the year.²⁷ In November, they conducted their biggest-ever drills there, centred in the Agdam district, an Azerbaijani ghost town just a few kilometres from the front lines. President Sargsyan and Defence Minister Seyran Ohanian²⁸ joined the de facto Karabakh leadership

²³See joint statement of the Armenian, Azerbaijani and Russian presidents at Astrakhan, 27 October 2010. http://news.kremlin.ru/ref_notes/749.

²⁴“АО НК сообщает о гибели армянского военнослужащего и «несравнимо больших» потерях с азербайджанской стороны” [Nagorno-Karabakh defence army reports a death of an Armenian serviceman and ‘incomparably greater’ casualties from the Azerbaijani side], RFE/RL Armenian service (in Russian), 21 January 2011; “В результате нарушения армянской стороной режима перемирия погиб азербайджанский военнослужащий” [An Azerbaijani serviceman killed as a result of Armenian side’s cease-fire violation], Day.az (in Russian), 26 January 2011; “More Skirmishes Reported Around Karabakh”, RFE/RL Armenian service, 17 January 2011.

²⁵Jasur Mammadov, “Birgə hərbi təlimlərin görünməyən tərəfləri” [Untold side of the joint military drills-in Azeri], *Ayna* (Baku newspaper, online), 26 June 2010.

²⁶“Минобороны распространило информацию о совместных широкомасштабных оперативно-тактических учениях в Азербайджане” [Defense ministry released information about joint large-scale military drills in Azerbaijan], Day.az (in Russian), 24 June 2010.

²⁷“Azərbaycan Müdafiə Nazirliyi: Ermənilərin Dağlıq Qarabağda təlimlər keçirməsi artıq uşaq oyunu təsiri bağışlayır” [Azerbaijani defence ministry: the Armenians’ conduct of military exercises in Nagorno-Karabakh resembles child games], APA news agency (Azerbaijan), 13 November 2010.

²⁸Sargsyan and Ohanian are both former Nagorno-Karabakh de facto defence officials. Sargsyan also served as Armenia’s defence minister before becoming prime minister in 2007 and president in 2008.

to observe the final stage.²⁹ According to local analysts, more armoured vehicles and artillery participated than Armenian forces used at the height of the war.³⁰ Following that exercise, Sargsyan said the Armenian army would deal a “final and deadly” blow to Azerbaijan should hostilities resume.³¹ His words came a day after Aliyev, on a visit to the Azerbaijani-controlled part of the Agdam district, declared the Azerbaijani army “will act at any moment” to restore the country’s territorial integrity.³²

Such shows of force and rhetoric are making the line of contact increasingly dangerous and volatile. Both sides also continue a barely noticeable but dangerous “trench war”, advancing their fortifications closer to each other.³³ U.S. officials express concern that the more sophisticated and lethal weaponry both are acquiring puts response time on an ever shorter hair trigger, thus adding to the risk of accidental conflict.³⁴

On the sidelines of the December 2008 OSCE ministerial summit in Helsinki, the Minsk Group proposed that both sides pull back their snipers. Armenia agreed,³⁵ but Azerbaijan, refused. The deaths in 2010 make this recommen-

dation all the more urgent. Additionally, the Minsk Group should call on both sides to fully respect the 1994 ceasefire agreement, cease overflights (manned or unmanned) and large military exercises near the line of contact. The OSCE should increase monitoring and improve its investigatory capabilities, including through the use of satellite imagery and other remote surveillance capabilities to survey the movement of troops and heavy weapons.

The Minsk Group believes there is little chance of securing agreement for such confidence-building measures (CBMs), because Azerbaijan is loath to consolidate the ceasefire regime in the absence of progress in the talks and considers that only the threat of force can move Yerevan toward a compromise.³⁶ But greater efforts are needed to persuade Baku that such small steps are directed not at its fundamental war-fighting capabilities, should it come to that, but rather at making the current situation more predictable and controllable and incidents more verifiable, so that an accident does not escalate out of proportion, against the interests of all.

B. MILITARY BUDGET INCREASES

Azerbaijan’s official defence spending has risen twenty-fold during the presidency of Ilham Aliyev, with an average annual increase approximating 50 per cent, from \$135 million in 2003 to \$3.12 billion today.³⁷ This had been generally consistent with overall increases in the national budget and within its traditional 10-14 per cent of total expenditures.³⁸ But in 2011 military expenditures are to

²⁹ Russian military officers also attended as observers. Crisis Group email exchange, military analyst, January 2011.

³⁰ “В учениях было использовано больше военной техники, чем на войне” [More military armour was used in the drills than during the war], Panorama.am (in Russian), 15 November 2010.

³¹ “I have no doubt that if the time comes, we will not only do again what we did in 1992-1994 but will go even further and solve the issue once and for all; the issue will be closed for good”. “President Serzh Sargsyan speaks after the military exercises”, President.am (official site), 13 November 2010.

³² “Our Army will act at any moment. We do not want to have war. But we will never reconcile with this situation. Armenia knows and should know that our patience also has limits”. “Speech by Ilham Aliyev at the opening ceremony of a new settlement for IDP families in the region of Agdam”, President.az (official site), 11 November 2010. While Azerbaijan was conducting exercises in June, Sargsyan and Ohanian made an unplanned visit to Nagorno-Karabakh and monitored the frontline fortifications.

³³ In late-December 2010, Nagorno-Karabakh’s de facto defence minister, Movses Akopyan, said his forces advanced their positions in an unnamed direction. “Мовсес Акопян ждет войны” [Movses Akopyan is waiting for war], 1in.am (in Russian), 29 December 2010. There were no public responses from Azerbaijani officials, but Azerbaijani military experts said the army regularly undertakes similar efforts. Crisis Group interviews, military experts, Baku, December 2010.

³⁴ Crisis Group telephone interview, U.S. official, January 2011.

³⁵ Armenia’s foreign minister, Edvard Nalbandian, said in September 2010 the withdrawal of snipers would “strongly contribute to the establishment of a regime of non-use of force”. “UN head calls for removal of snipers along Karabakh line of contact”, *Asbarez* (Armenian Diaspora newspaper, online), 27 September 2010.

³⁶ Crisis Group interviews, U.S. officials, January 2011. Speaking at an Azerbaijan-NATO event in October 2010, the foreign minister said, “the international community should not settle for only dealing with technical aspects of the ceasefire, which was actually intended in 1994 as a temporary means to speedily proceed to an agreement on the conflict settlement... a solution to this protracted conflict is the best and the only 100 per cent guarantee against young soldiers dying on the line of contact, as well as civilians from areas adjacent to the frontline being killed near their homes”. Statement by Elmar Mammadyarov at “28+1” meeting of the North Atlantic Council, Brussels, 1 October 2010, Mfa.gov.az (official site).

³⁷ Azerbaijan apparently increased its military spending by 30 per cent in 2004 (from \$135 million to \$175 million); 71 per cent in 2005 (to \$300 million); 120 per cent in 2006 (to \$660 million); 66 per cent in 2007 (to \$1.1 billion); 68 per cent in 2008 (to \$1.85 billion); 8 per cent in 2009 (to \$2 billion); 7.5 per cent in 2010 (to \$2.15 billion); and 45 per cent in 2011 (to \$3.12 billion). Crisis Group’s own calculations based on official Azerbaijani statements. The relatively small increases in 2009 and 2010 were apparently due to the world economic crisis and declining oil prices.

³⁸ “Azerbaijan to almost double defence spending”, News.az, 12 October 2010. See, Crisis Group Europe Briefing N°50, *Azer-*

become 20 per cent of the total budget,³⁹ a sharp jump from previous years, and, in fulfilment of a 2007 Aliyev pledge, to exceed the entire Armenian state budget.

Economic strength, based on oil and gas revenue, emboldens Azerbaijan to believe it can shift the balance of power. It claims that its economy accounts for some 75 per cent of the total economy of the South Caucasus.⁴⁰ Its gross domestic product (GDP) for 2010 was \$52.1 billion, almost six times larger than Armenia's \$8.8 billion.⁴¹ Its oil production appears to have peaked, however, and oil-dependent economic growth, which slowed to 4.2 per cent in 2010, is set to contract further. Armenia's GDP grew a similar 4 per cent in 2010, but this followed a 14 per cent decline in 2009, its most dramatic contraction since 1993 and the year's biggest within the Commonwealth of the Independent States (CIS).⁴²

The lack of budget transparency and parliamentary oversight makes it very difficult to determine how Azerbaijan spends the funds it allocates for defence.⁴³ There are persistent rumours that much intended for the military is lost to corruption and mismanagement.⁴⁴ Some observers claim that expenditure increases are exaggerated for both domestic reasons and to put pressure on the Armenians at the negotiations table.⁴⁵ The draft 2011 budget includes some

\$1.2 billion for obscurely defined "projects of special defence purpose", in addition to the strictly military budget.⁴⁶ Local analysts believe most of the former will be allocated to foreign arms procurement, including the planned but unconfirmed purchase of Russian S-300 air-defence anti-missile systems, as well as domestic weapons production.⁴⁷

Despite non-binding OSCE and UN arms embargoes on both,⁴⁸ Armenia and Azerbaijan are actively pursuing an arms race. Azerbaijan purchased Mi-24 "Crocodile" attack helicopters, 29 BTR-70 armoured vehicles and some 35 122-mm and 152-mm artillery pieces from Ukraine in 2009 and, reportedly, 62 of its 180 T-72 tanks from Russia.⁴⁹ In 2010, it acquired Croatian-made RAK-12 multiple rocket launching systems from Bosnia that have a range of 8-13km.⁵⁰ Armenian military analysts say, "this is an unnecessary amassing of weapons. They [Azerbaijan] have

that military spending would increase 90 per cent, to 2.5 billion AZN (\$3.1 billion). However, President Aliyev stated in June that it was \$2.1 billion in 2010, meaning that the increase, while substantial, would be only 45 per cent. Armenian and Azerbaijani budgets use different ways to categorise defence outlays. Azerbaijan categorises spending on national security in the "defence" section of the budget; in Armenia, it falls under a different sub-item. Neither budget provides a detailed breakdown of military expenditures. Both contain "hidden" defence items, identified as part of non-military-related expenditures. For example, the section on "state investments" in Azerbaijan's budget contains many military-related outlays.

⁴⁶"Azerbaijan to almost double defence spending", News.az, 12 October 2010.

⁴⁷Despite a rather dated Soviet-era design, the S-300 is generally comparable to the American "Patriot" surface-to-air missile system and has been upgraded several times. It has a range of up to 200km and the capability to simultaneously track up to 100 targets, from aircraft to cruise missiles. Crisis Group email communication, military analyst, January 2011.

⁴⁸In 1992 OSCE (then the Conference on Security and Cooperation in Europe, CSCE) and in 1993 the UN Security Council (Resolution 853) imposed non-mandatory arms embargoes on Armenia and Azerbaijan, urging states to "refrain from the supply of any weapons and munitions which might lead to an intensification of the conflict or the continued occupation of territory". Although there were no mechanisms for overseeing the embargoes, many Western countries have refrained from arms exports. In the 1990s, Azerbaijan was unable to receive U.S. military aid due to Section 907 of the Freedom Support Act (1992), which banned all government-to-government assistance. It was waived in 2001.

⁴⁹"Ukraine sells eleven Mi-24 helicopters to Azerbaijan", News.az, 28 August 2010. "Elbit Systems to upgrade Azerbaijani T-72 MBTs", Defpro.com, 19 October 2010.

⁵⁰Rumours started based on a 24 September 2010 report from the OSCE Mission to Bosnia and Herzegovina that a license to export this system to Azerbaijan had been granted by the appropriate Bosnian ministry. Statements made at the OSCE Forum for Security and Cooperation, Vienna, 6, 7, 13 October 2010.

baijan: Defence Sector Management and Reform, 29 October 2008.

³⁹Manafov, Dj. Khalilov, "В 2011 году расходы на оборону возрастут почти в два раза" [In 2011 defense expenditures will increase almost twofold], *Echo* (Baku newspaper, online, in Russian), 13 October 2010.

⁴⁰"Speech by Ilham Aliyev at the commissioning of a residential building for Karabakh war veterans and martyrs' families", President.az, (official site), 24 December 2010.

⁴¹"World Economic Outlook Database", International Monetary Fund, October 2010.

⁴²Ibid. Haroutiun Khachatryan, "Armenia to cut its budget next year despite expected economic recovery", *Central Asia-Caucasus Analyst* (www.cacianalyst.org), 11 November 2009. Azerbaijan, due to its oil-driven economic growth, withstood the impact of the global financial crisis in 2009 relatively well, maintaining a 9.3 per cent increase in economic growth. The CIS is a regional organisation comprised of eleven former republics of the Soviet Union.

⁴³The draft 2011 state budget is obscure on how this money is to be spent. Some \$1.6 billion is listed under defence outlays, the bulk of which is allocated directly to the army. The rest is not listed separately in the budget, but is included as part of "state investment plans". Crisis Group interview, economist, Baku, November 2010.

⁴⁴Crisis Group interviews, political observers, Baku, January 2011. For more details on corruption and mismanagement in the Azerbaijani army, see, Crisis Group Report, *Azerbaijan: Defence Sector Management and Reform*, op. cit.

⁴⁵For example, Finance Minister Samir Sharifov said in October during parliamentary discussions on the 2011 draft budget

enough not only to take Armenia, but also take Georgia and even further".⁵¹

Azerbaijan is also developing a domestic weapons industry to produce small arms and armoured vehicles, with help from Israeli, Turkish, Pakistani and South African companies.⁵² Israel's largest defence electronics company – Elbit Systems – agreed in October 2010 to outfit Azerbaijan's T-72 tanks with state-of-the-art battle management gear as well as observation and surveillance systems.⁵³ Also that month, the defence ministry signed a memorandum of intention with the Turkish-owned "Otokar" company to jointly produce armoured vehicles.⁵⁴ In November, it agreed with another Turkish company, Roketsan, to jointly produce 11-km and 40-km rockets for multiple launch systems. It has also obtained a license from the South African Paramount Group to produce mine-resistant and ambush-protected (MRAP) vehicles.⁵⁵

Armenia's official defence budget pales in comparison, but Yerevan is also arming. According to its budget, it plans to spend some \$390 million on the army in 2011. Some analysts estimate that the total defence figure, counting Nagorno-Karabakh's, is closer to \$600 million.⁵⁶ In the last quarter of 2010, the government approved new weapons acquisition and domestic defence industry programs.⁵⁷ Much recent procurement has been for defensive systems, such as UAVs for reconnaissance and border patrols, reflecting both the Armenian military's posture and its threat perception.⁵⁸ But Defence Minister Ohanian has also spoken of plans to acquire long-range, precision-

guided weapons.⁵⁹ Armenia can buy arms from Russia at much cheaper prices than Azerbaijan due to bilateral agreements and membership in the Moscow-led Collective Security Treaty Organisation (CSTO).

There have been numerous reports of Russian arms transfers from its military base in Gyumri (Armenia).⁶⁰ Most recently, in January 2009, Azerbaijan claimed Moscow provided Yerevan arms and munitions worth some \$800 million in the preceding year, including 21 T-72 tanks, some 50 armoured vehicles, artillery pieces, "Strela-10" and "Strela-2" surface-to-air missile systems.⁶¹ Although Russia denied this, Azerbaijan's foreign ministry stated on 15 January 2009 that there were "sufficient grounds to conclude the arms transfer did take place", and such transfers "put a special responsibility" on Russia for the future course of the conflict.⁶² An August 2010 Russia-Armenia defence accord, which extended the lease at Gyumri, further commits Moscow to supply the Armenian army with "modern and compatible weaponry and (special) military hardware".⁶³ In December 2010, Armenian authorities confirmed they had deployed at least two batteries of the state-of-the-art Russian-made S-300 air-defence anti-missile system.

III. PEACE TALKS ON THE VERGE OF COLLAPSE

Escalation of the intensity and number of ceasefire violations and the defence budget increases on both sides are particularly worrying because of the failure to make progress in the once promising peace negotiations mediated by the OSCE Minsk Group co-chairs. In 2009 and 2010 the Russian, U.S. and French presidents publicly proposed that a lasting settlement be based on the principles and norms of international law; the United Nations Charter; and the Helsinki Final Act, especially the principles of Non-Use of Force or Threat of Force, Territorial Integrity, and the Equal Rights and Self-Determination of Peoples.

⁵¹ Crisis Group interview, Yerevan, December 2010.

⁵² "We must ensure that all the hardware, arms and ammunition required for the armed forces are produced in Azerbaijan. We will further step up work in this direction", said President Aliyev after the June military drills. See, "Speech", President.az (official site), 24 June 2010.

⁵³ "Elbit Systems to upgrade Azerbaijani T-72 MBTs", op. cit.

⁵⁴ "Azərbaycan Türkiyə ilə birgə hərbi texnika istehsal edəcək" [Azerbaijan will manufacture arms jointly with Turkey], Anspress.com (Baku, in Azeri), 8 December 2010.

⁵⁵ "Armoured vehicles roll off Azerbaijan's production lines", News.az, 19 November 2010.

⁵⁶ See, "Содружество милитаризованных государств" [Commonwealth of the militarised states], *Nezavisimaya Gazeta* (newspaper, Moscow), 17 March 2010, www.ng.ru/cis/2010-03-17/1_military.html.

⁵⁷ "Armenia seeking long-range weapons", RFE/RL, 10 August 2010; "Armament development program approved in Armenia", News.am, 11 December 2010.

⁵⁸ Crisis Group email communication, military analyst, January 2011. See also, "15 беспилотных летательных аппаратов стоят на вооружении Армении" [Fifteen Unmanned Aerial Vehicles are in Service with Armenia], Regnum News Agency, www.regnum.ru, 25 May 2010; "Armenia Will Design and Manufacture its Own Drone", News.am, 18 March 2010.

⁵⁹ "Armenia seeking long-range weapons", op. cit.

⁶⁰ Fariz Ismailzade, "Russian arms to Armenia could change Azerbaijan's foreign policy orientation", *Central Asia-Caucasus Analyst* (www.cacianalyst.org), 28 January 2009. The base is estimated to have some 3,000 Russian troops and considered to be well equipped with air and land resources.

⁶¹ The Azerbaijan government, in an unusual move, leaked a copy of an unsigned document listing alleged Russian arms transfers to Armenia. See, "Rusiyanın Ermənistanı ötürdüğü silahlar üzə çıxdı" [Russian arms transferred to Armenia have been revealed], Mediaforum.az (in Azeri), 8 January 2009.

⁶² Azerbaijani foreign ministry statement, mfa.gov.az, 15 January 2009 (in Azeri).

⁶³ Emil Danielyan, "Armenia Displays Sophisticated Air Defence Systems", *Eurasia Daily Monitor*, 19 January 2011.

More specifically they called on the sides to agree to a set of basic principles, conceived as an integrated whole to serve as the basis of a comprehensive peace agreement, including *inter alia*:⁶⁴

- *return of the occupied territories surrounding Nagorno-Karabakh;*
- *interim status for Nagorno-Karabakh guaranteeing security and self-governance;*
- *a corridor linking Nagorno-Karabakh to Armenia;*
- *eventual determination of Nagorno-Karabakh's final status by a legally-binding expression of will;*
- *the right of all IDPs and refugees to return; and*
- *international security guarantees, including a peacekeeping operation.*

But even this international consensus has done little to move the sides closer to an agreement on basic principles. Instead, there is a sense that positions have hardened, and they have little willingness to resolve the big issues.⁶⁵

Belligerent rhetoric is increasing. In at least nine major public speeches in 2010, President Aliyev explicitly warned of war if there was no progress in the talks, most recently saying, “as long as Azerbaijani lands remain under occupation, Armenia will live in fear ... as long as our lands are under occupation, Armenia and its leaders must know that the Azerbaijani people can at any time conduct a military operation in its own territory. These opportunities are provided for by international law”.⁶⁶

The Armenian president appears similarly unyielding, saying if war resumes, “we will not only do again what we did in 1992-1994 but will go even further and solve the issue once and for all”.⁶⁷ At the December 2010 OSCE summit, he said further: “Armenia categorically rejects the resumption of military hostilities in Nagorno-Karabakh as an option”, but in case of Azerbaijani “military aggression ... will have no other choice but to recognise the

Nagorno-Karabakh Republic *de jure*”, and added that “Nagorno-Karabakh has no future within Azerbaijan”.⁶⁸

A. DISAPPOINTMENTS IN 2010

Any optimism that remained in 2009 over the framework agreement on basic principles, negotiated since 2005 between the two presidents and their foreign ministers, evaporated in the second half of 2010. While Aliyev and Sargsyan met six times in 2009, they did so only three times in 2010. The shuttle diplomacy by Minsk Group diplomats, who visited Yerevan and Baku sometimes as often as twice a month in 2009, also cooled. Even though there was an OSCE push to obtain agreement on the basic principles for the December 2010 summit, the presidents refused to meet each other and made only a vague commitment to seek a solution based on international legal principles and the Muskoka/L’Aquila statements of the Minsk Group co-chair countries.⁶⁹

Since they were originally formulated in 2005, the basic principles (known also as the Madrid principles since 2007) have been modified and updated, as the Minsk Group co-chairs seek a consensus text.⁷⁰ In early 2010, they presented “updated Madrid principles” that reportedly contain sixteen or seventeen points but do not differ fundamentally from previous versions.⁷¹ As explained by Azerbaijani Foreign Minister Elmar Mamadyarov, they propose an immediate Armenian withdrawal from five occupied Azerbaijani districts, followed within five years by withdrawal from the Armenian-occupied Kelbajar district and most of the Lachin corridor.⁷²

Prospects for an agreement appeared to improve when Azerbaijan announced in mid-February 2010 that it accepted the framework agreement “with some [unspecified

⁶⁴ The statements made by Presidents Obama, Medvedev and Sarkozy were released on the margins of the G-8 summits in 2009 (L’Aquila, Italy) and 2010 (Muskoka, Canada) respectively. See L’Aquila Statement, 10 July 2009, at www.osce.org/item/51152; and Muskoka Statement, 26 June 2010, at www.osce.org/mg/69515.

⁶⁵ Crisis Group interviews, U.S. officials, January 2011. Crisis Group interview, Russian official, Moscow, September 2010.

⁶⁶ “Speech ... at the commissioning of a residential building for Karabakh war veterans and martyrs’ families”, President.az (official site), 24 December 2010.

⁶⁷ “President Serzh Sargsyan speaks after the military exercises”, President.am (official site), 13 November 2010.

⁶⁸ “Remarks by The President of the Republic of Armenia H.E. Serzh Sargsyan at the OSCE Meeting of the Heads of State or Government (Summit)”, President.am (official site), 2 December 2010.

⁶⁹ The presidents agreed to a joint statement committing their governments to seek a solution guided by the L’Aquila and Muskoka statements, as well as the general norms and principles of international law.

⁷⁰ In November 2007, during the OSCE ministerial council in Madrid, the Minsk Group co-chairs for the first time formally presented Armenia and Azerbaijan a document called “Basic Principles for the Peaceful Settlement of the Nagorno-Karabakh Conflict”. See, “OSCE Minsk Group co-chairs issue statement on Nagorno-Karabakh”, 29 November 2007; www.osce.org/mg/49237. With this, the basic principles were no longer a non-paper but an official proposal of the Minsk Group co-chairs.

⁷¹ Crisis Group Briefing, *Nagorno-Karabakh: Getting to a Breakthrough*, op. cit.

⁷² “Baku ‘accepts’ a five-year deadline for return of Kelbajar, Lachin”, News.az, 15 July 2010.

but minor] exceptions”, and President Aliyev confirmed this the next month.⁷³ In 2009, Aliyev had already publicly accepted a corridor linking Nagorno-Karabakh and Armenia in the Lachin district⁷⁴ and interim status for Nagorno-Karabakh.⁷⁵ He has not publicly endorsed a self-determination vote for the population of Nagorno-Karabakh⁷⁶ and told officials that as long as he is president there will be none.⁷⁷ But he reacted positively to the 26 June 2010 Muskoka statement saying, “if the conflict is resolved on the basis of these principles, I think the interests of Azerbaijan will be fully secured”.⁷⁸

The official reaction from Armenia, however, was less enthusiastic.⁷⁹ Yerevan has not publicly explained its hesitancy to agree to the updated Madrid principles, but it clearly wants a stronger security guarantee and an agreement that the population of Nagorno-Karabakh will have the right to self-determination, including to formalise secession from Azerbaijan and choose independence.⁸⁰ At a

⁷³ “Мадридские принципы приемлемы для Азербайджана” [Madrid principles are acceptable for Azerbaijan], *Zerkalo* (Baku newspaper, online, in Russian), 16 February 2010. “Speech by President Ilham Aliyev at nationwide festivities on the occasion of Novruz Bayrami”, *President.az* (official site), 20 March 2010. On 14 April 2010 he also said, “Azerbaijan officially confirmed that in principle the proposal made on the basis of updated Madrid principles is acceptable for us. There are very few aspects in the proposal which would worry us”. See, “Opening speech by President Ilham Aliyev at a meeting of the Cabinet of Ministers on the results of socio-economic development in the first quarter of 2010”, *President.az* (official site).

⁷⁴ “Cooperation corresponds to the interests of Azerbaijan and Russia”, *Itar-Tass.com* (in Russian), 18 April 2009.

⁷⁵ Vladimir Solovyev, “Strides have been made”, *Kommersant* (Moscow newspaper, online, in Russian), 20 July 2009; also, Crisis Group Briefing, *Nagorno-Karabakh: Getting to a Breakthrough*, op. cit., p. 7.

⁷⁶ Aliyev has said, “the provision of [Nagorno-Karabakh] with a status outside Azerbaijan is absolutely unacceptable. This is our principled position. [Nagorno-Karabakh] will never become independent; Azerbaijan will never recognise it. A territory not recognised by us will never be recognised by the world either”. Speech at nationwide Novruz Bayrami festivities, *President.az* (official site), 20 March 2010.

⁷⁷ Crisis Group interview, Russian official, Moscow, September 2010.

⁷⁸ “Speech by President Ilham Aliyev at the opening ceremony of the central headquarters of Upper Qarabag’s [Nagorno-Karabakh’s] Azerbaijani community”, *President.az* (official site), 6 July 2010.

⁷⁹ “Nalbandian commends joint statement”, *The Armenian Weekly* (Armenian diaspora newspaper, online), 28 June 2010.

⁸⁰ Crisis Group interview, Armenian official, Yerevan, November 2010. Baku claims Armenia is delaying the negotiations to establish a fait accompli in Nagorno-Karabakh enabling all the occupied territories to remain under ethnic Armenian control. Speaking at the OSCE summit in Astana on 1 December 2010, Aliyev said, “the way how Armenia behaves during the nego-

Minsk Group meeting hosted by Russian President Medvedev in Sochi on 25 January 2010, President Sargsyan proposed specifying a definite date for a popular vote on final status. Aliyev rejected this, arguing it “undermined the entire framework of the agreement”.⁸¹ Yerevan then returned to its pre-2006 position, insisting on maintaining control over Kelbajar and Lachin until final status is determined through a binding vote.⁸² Previously, Yerevan had appeared to accept that it would withdraw from all seven occupied territories in stages, if a corridor at Lachin remained, Nagorno-Karabakh obtained official “interim status”, and the right to a self-determination referendum was codified.⁸³

Even Medvedev’s personal involvement did little to spur the talks.⁸⁴ He met Aliyev and Sargsyan for several hours at least three times in 2010: in Sochi (January), St. Petersburg (June) and Astrakhan (October). At the first session, he proposed that the sides approve most of the “basic principles” already agreed upon and put off “two or three questions” for later discussion. That, Foreign Minister Lavrov said, would “consolidate what has been achieved so far” and send an “important political signal ... that the leaders of Armenia and Azerbaijan clearly aim ... at a peaceful settlement”.⁸⁵ Baku refused, claiming it would cement the status quo, allowing Yerevan to drag the negotiations out and link withdrawal from Kelbajar and parts of Lachin to determination of Nagorno-Karabakh’s final status.⁸⁶

tiation process leads us to the conclusion that Armenia does not want peace, doesn’t want to liberate occupied territories, but wants to keep the status quo as long as they can and make [the] negotiation process endless”. *President.az* (official site).

⁸¹ “Azerbaijani president to U/S Burns: ‘You can’t boil two heads in one pot’”, reported in WikiLeaks, cable reference ID: 10BAKU134.

⁸² Crisis Group interviews, Moscow, November 2010, Baku, December 2010; Armenian official, Yerevan, December 2010.

⁸³ Crisis Group interview, official, Moscow, September 2010. Reportedly, Sargsyan agreed in 2009 to withdrawal from Kelbajar and much of Lachin in return for a 20-25km-wide land connection between Armenia and Nagorno-Karabakh. Crisis Group Briefing, *Nagorno-Karabakh: Getting to a Breakthrough*, op. cit., p. 7.

⁸⁴ “The positions of the sides have hardened; both have made big steps back”. Crisis Group interview, diplomat, Moscow, September 2010.

⁸⁵ “Russian FM Sergey Lavrov on essence of St. Petersburg proposals on Nagorno-Karabakh conflict, major goal of Russian military base in Armenia”, *Today.az*, 28 August 2010.

⁸⁶ In what seems to be his reaction to the Russian proposal, President Aliyev said, “some partial agreement cannot ensure our interests. Maybe today we can bring back some portion of the occupied lands by agreeing for any compromise. But, when [will] other lands be returned?! Therefore, we should treat it from the point of view of statehood and strategic choice”. “Speech ... at the first session of fourth convention of the Na-

The only tangible outcome in 2010 was the Astrakhan agreement on 27 October to exchange prisoners of war and the bodies of those killed.⁸⁷ An exchange occurred shortly thereafter but failed as a CBM. Azerbaijan reacted emotionally to the death images of Mubariz Ibrahimov, who was posthumously awarded the title of “National Hero”.⁸⁸ Armenian society was outraged by the alleged maltreatment of Manvel Saribekyan, who died in captivity in October, a month after being taken hostage, and by Aliyev’s speech at the Ibrahimov funeral, calling Armenia “historical Azerbaijani lands”.⁸⁹

The deadlock is primarily over the sequencing of a peace deal’s implementation and Nagorno-Karabakh’s status. Baku demands a fixed timeframe for Armenian withdrawal from all territories around Nagorno-Karabakh, including Kelbajar and Lachin, and return of the IDPs to these districts and to Nagorno-Karabakh prior to any final status vote on Nagorno-Karabakh.⁹⁰ Yerevan insists that “the people of Nagorno-Karabakh will get their independence through a vote”, and Azerbaijan should legally commit to a process giving them the right to self-determination that Armenia interprets as a procedure leading to de jure secession from Azerbaijan.⁹¹ Some go a step further, arguing that Nagorno-Karabakh’s status was already determined in a December 1991 referendum, and Azerbaijan should recognise its independence if it wants Armenia to withdraw.⁹²

tional Assembly of the Republic of Azerbaijan”, *President.az* (official site), 29 November 2010.

⁸⁷ Text of the Astrakhan Statement: http://news.kremlin.ru/ref_notes/749.

⁸⁸ Photos of the dead Ibrahimov lying on the Armenian trench with his hands tied were published online in September 2010. “Armenians post killed Azeri soldier’s photos online”, *Azernews* (Baku newspaper, online), 4 September 2010.

⁸⁹ Azerbaijan claimed Saribekyan was a saboteur and hung himself. Armenia said he was a civilian shepherd who accidentally crossed into Azerbaijani territory and may have been killed to be exchanged for Ibrahimov’s body. Nanore Barsoumian, “Armenian detainee ‘commits suicide’ in Azerbaijan detention”, *The Armenian Weekly* (Armenian Diaspora newspaper, online), 7 October 2010. Aliyev said, “the contemporary Armenian state was created on historical Azerbaijani lands”, *President.az* (official site), 7 November 2010. Armenian officials regularly say similar things about Azerbaijan and its Nakhichevan exclave. Sargsyan speech in the Cyprus House of Representatives, *President.am* (official site), 17 January 2011.

⁹⁰ “Azərbaycan xarici işlər nazirinin müavini: ‘Ermənistan Ləçin və Kəlbəcərin azad edilməsi üçün vaxt istəyir’” [Azerbaijani deputy foreign minister: Armenia wants time to liberate Lachin and Kelbajar], APA news agency (Azerbaijan, online), 4 May 2010.

⁹¹ Crisis Group interview, presidential adviser, Yerevan, November 2010.

⁹² Crisis Group interview, Hayk Kotanjian, head of the Institute for National Strategic Studies, Yerevan, November 2010.

Discussions at this stage should focus not on deadlines or final status, but on creating a safe and secure environment for Karabakh Armenians and Azerbaijanis and democratic conditions conducive to a legitimate voting process. Such an approach would address Baku’s concern for preserving its de jure territorial integrity, as well as Yerevan’s insistence on recognition of the right to self-determination for Nagorno-Karabakh’s population, up to and including secession and independence. Armenia should not link final status determination with withdrawal from Kelbajar and Lachin. Azerbaijan should agree that the final status of Nagorno-Karabakh will be determined in the future by a legally-binding expression of will in which the population of Nagorno-Karabakh will have a right to unlimited self-determination.

B. TIME PRESSURES ON PRESIDENT ALIYEV

Time is working against President Aliyev: as the twentieth anniversary of the 1994 ceasefire approaches, some 586,000 Azerbaijanis are IDPs,⁹³ and approximately 14 per cent of the country’s territory remains occupied.⁹⁴ He is expected to stand for a third consecutive term in 2013 and would prefer to have a significant achievement, such as a solution to Nagorno-Karabakh, to burnish his record.⁹⁵ Public opinion is increasingly against any compromises on the subject, while a small plurality continues to believe it is more likely that an unstable “no peace no war” situation will continue, rather than that there will be progress in the peace talks.⁹⁶

Many argue that Azerbaijan is unlikely to go to war, because it would undermine its energy-fuelled growth and

⁹³ “Azerbaijan: After some 20 years, IDPs still face barriers to self-reliance”, IDMC (www.internal-displacement.org), 10 December 2010.

⁹⁴ “... the combined area of Azerbaijan under Armenian control is approximately 11,797 km² or 4,555 square miles. Azerbaijan’s total area is 86,600 km². So the occupied zone is in fact 13.62 percent of Azerbaijan...”, Thomas De Wall, *Black Garden: Armenia and Azerbaijan through Peace and War*, (New York University Press, 2003), p. 286.

⁹⁵ Crisis Group interviews, local analysts, Baku, July 2010. He is legally allowed to stand following controversial amendments to the constitution in 2009.

⁹⁶ Only 15 per cent of Azerbaijanis polled in January 2010 believed that military operations would restart. 42.5 per cent believed “no peace, nor war” situation would continue”, and 40.7 per cent believed there would be progress in the peace talks. In January 2006 when the same poll was carried out 13.9 per cent thought that war would restart, 43.9 per cent that there would be no war and no peace, and 37 per cent that there would be progress in the talks (5 per cent could not respond). R. Musabayov, R. Shulman (eds.), *Azerbaijan in 2006-2010: Sociological Monitoring* (Baku, 2010), p.17.

weaken its strategic position as a transport corridor.⁹⁷ But Azerbaijan reached its oil-driven economic growth limits in 2010, as reflected in a significantly lower GDP increase, and the decline in oil revenues, projected to start by the middle of the decade, may negate these points.⁹⁸ As Crisis Group has previously warned, if talks have yielded no results by that time, the regime may be tempted to play the nationalist card, including war. The idea would be to distract attention from the social problems and concomitant discontent that waning revenues might well trigger.⁹⁹

The Armenian side also regularly provokes Azerbaijan, for example by promoting settlement activity in and around Nagorno-Karabakh. The government claims not to support such activity, but it is clearly helped by nationalists and diaspora groups.¹⁰⁰ Armenia is renaming Azerbaijani settlements and carrying out archaeological excavations to “prove” primordial Armenian origins in the region. In November 2010, de facto Nagorno-Karabakh authorities renamed the abandoned city of Aghdam (which had a pre-war population of some 30,000 Azerbaijanis) to “Akna”, after Armenian historians and archaeologists claimed to have discovered ruins of an ancient Armenian city of “Tigranakert” nearby.¹⁰¹ Azerbaijan protests such excavations and accuses Armenia of breaching the Geneva and

Hague Conventions.¹⁰² The foreign minister said, “Armenia tries to make the situation irreversible. Those provocative actions put additional time pressure on us”.¹⁰³ Such activities in the occupied territories are driven not by historical concerns but by the desire to reinforce the new realities on the ground and should be abandoned.

C. DOMESTIC PRESSURES ON PRESIDENT SARGSYAN

President Sargsyan, who came to power in February 2008 after controversial elections marred by post-election violence, has weak credibility at home, making it hard for him to compromise on Nagorno-Karabakh. The opposition is strong and well-organised, and the political scene is more diverse than in Azerbaijan, where the government dominates virtually all aspects of public and social life.¹⁰⁴ Sargsyan needs to retain his support base, including members of the “Karabakh clan” who are sometimes opposed to his policies and are generally against even modest compromise related to the entity. Many in Armenia and Nagorno-Karabakh believe that, as “the victorious side”, their losses would outweigh their gains under a basic principles agreement.¹⁰⁵ They want a clear prospect for Nagorno-Karabakh’s independence and generally contend that the basic principles do not guarantee this, while omitting that they also do not assure Azerbaijan’s continued sovereignty over the entity.

Sargsyan’s credibility and manoeuvre room were at all-time lows in 2010, due to failure of the reconciliation with Turkey that had seemed so promising the previous year. Hard-line domestic opposition condemned the October 2009 protocols as a covert Turkish effort to press Yerevan into Nagorno-Karabakh concessions and prevent Armenian genocide resolutions in legislatures around the world.¹⁰⁶

⁹⁷ “New Karabakh war will devastate Azeri economy, says analyst”, *Asbarez.com* (Armenian diaspora newspaper, online), 27 January 2010. The Baku-Tbilisi-Kars railway and the Southern Corridor gas pipeline are two such projects Azerbaijan has invested heavily in.

⁹⁸ “Republic of Azerbaijan: 2010 Article IV Consultation – Staff Report”, International Monetary Fund (IMF), May 2010. The target year is 2014.

⁹⁹ Crisis Group Europe Report, *Nagorno-Karabakh: Risking War*, op. cit.

¹⁰⁰ A leader of the nationalist Dashnaksutian party, Vahan Hovannissian, suggested Yerevan’s denial of resettlement in the occupied territories was contrary to Armenian interests, and they should be populated by Armenians from Azerbaijan. “При признании Карабаха должен присутствовать 131 депутат” [131 MPs need to be present during Karabakh’s recognition], *Lragir* (Yerevan newspaper, online, in Russian), 28 September 2009. Some Armenians estimate the number of settlers has shrunk from 30,000 to 15,000. Gayane Abrahamyan, “Population issue: Discussion of resettlement for Karabakh comes to the fore after OSCE tour”, *Armenianow* (Armenian diaspora newspaper, online), 15 October 2010. Nagorno-Karabakh’s de facto president, Bako Sahakian, regularly calls resettlement in the occupied territories “a major strategic component of the state policy”. Ibid.

¹⁰¹ Karabakh Armenian authorities are, however, quick to point out they are also engaged in mosque reconstruction, in order “to preserve the region’s Islamic heritage”. “Armenian Karabakh official says mosques being repaired”, RFE/RL, 18 November 2010.

¹⁰² Prohibiting settlements in occupied territories (Geneva) and encroaching on historical and cultural property (The Hague).

¹⁰³ Statement by Elmar Mammadyarov, op. cit.

¹⁰⁴ According to the former president and current opposition leader, Levon Ter-Petrossian, Sargsyan faces a “fateful” dilemma between a domestic nationalist backlash and putting himself at odds with the international community, and “in both cases, Serzh Sargsyan will undoubtedly lose power”. “Former Armenian president says Karabakh resolution essential”, RFE/RL, 20 July 2010. See, for details on Baku power relations, Crisis Group Europe Report N°207, *Azerbaijan: Vulnerable Stability*, 3 September 2010.

¹⁰⁵ Crisis Group Europe Briefing N°55, *Nagorno-Karabakh: Getting to a Breakthrough*, 7 October 2009.

¹⁰⁶ Protocol on the Establishment of Diplomatic Relations between the Republic of Armenia and the Republic of Turkey and the Protocol on the Development of Relations between the Republic of Armenia and the Republic of Turkey, signed on 10 October 2009 in Zurich. “Kiro Manoyan: Turkey gained its ob-

The Azerbaijani side argued that Turkish-Armenian reconciliation, and especially opening of the Turkey-Armenia border, should not occur until Yerevan begins withdrawing from the occupied territories, and it pressured Ankara to adopt a similar policy. Yerevan suspended its signature in April 2010, accusing Turkey of failing “to honour its commitment to ratify the protocols unconditionally and within a reasonable time frame”.¹⁰⁷ The consequence of all this has been a hardening of positions by both sides in the Nagorno-Karabakh talks.

Just as Aliyev uses war rhetoric against Armenia and the mediators, the Armenian side uses the threat of Nagorno-Karabakh recognition. The opposition Heritage party proposed a bill to formally recognise the entity so as to “alter the rules at the negotiation table” by removing the status issue from the discussions, but the ruling coalition called it “untimely” and boycotted the vote on 9 December 2010.¹⁰⁸ However, officials warn that if full-scale hostilities resume, they will recognise Nagorno-Karabakh and sign a mutual defence pact with its de facto authorities.¹⁰⁹

IV. THE WAR OPTION

If large-scale hostilities resume, there would be little certainty over their length, consequences or outcome. Much would depend on the reaction of the international community, especially Russia and Turkey. Even though Azerbaijan has invested massively in its military and has more troops, the balance of forces suggests no easy or quick victory.

A. DO NOT EXPECT A LOCALISED CONFLICT

Azerbaijani forces are estimated at 95,000 people, Armenian forces at roughly 70,000, including some 53,500 in Yerevan’s army and between 18,500 and 20,000 in Nagorno-Karabakh’s.¹¹⁰ Some of the Armenian troops

ject [sic] even without ratification of protocols”, Panarmenian news agency (Armenia), 13 August 2010.

¹⁰⁷ “Armenia suspends ratification of Turkey deal”, RFE/RL, 22 April 2010.

¹⁰⁸ Only thirteen deputies from the Heritage and Dashnaksutiun parties approved.

¹⁰⁹ Most recently, President Sargsyan speaking at the OSCE’s Astana summit, said, “in case Azerbaijan resorts to military aggression, Armenia will have no other choice but to recognise the Nagorno-Karabakh Republic de jure and to employ all its capabilities to ensure the security of the people of Artsakh [Nagorno-Karabakh]”. Remarks, President.am (official site), 2 December 2010.

¹¹⁰ Nagorno-Karabakh is also thought to have a mobilisation reserve of 20,000-30,000. C.W. Blandy, “Azerbaijan: Is War Over Nagornyy Karabakh A Realistic Option?”, RMA Sand-

hurst, The Conflict Studies Research Centre, Surrey, May 2008. stationed in the occupied territories are from the former, and there are estimates that 10,000 of the latter are conscripts from Armenia.¹¹¹

The two sides’ arsenals are far more sophisticated and deadly than those they employed in 1992-1994. Both boast of operational-tactical missiles, multiple-launch medium and long-range rocket systems (MLRS), strike aircraft and heavy artillery.¹¹² They can hit large population centres, infrastructure and communications. A majority in both countries is determined to control Nagorno-Karabakh.¹¹³

Local analysts often predict that an Azerbaijani offensive would start with a blitzkrieg along the Nagorno-Karabakh front, while a defensive posture would be maintained along the international border with Armenia proper. Azeri forces could attempt to grab a few of the occupied territories around Nagorno-Karabakh, especially Fizuli and Jebrail, which are on flatter terrain. Azerbaijani officials have stated that new hostilities would be limited to the Nagorno-Karabakh front.¹¹⁴ This could make it more dif-

hurst, The Conflict Studies Research Centre, Surrey, May 2008. When only the armies are considered, the difference between the two sides diminishes, with the Azerbaijani estimated at 23 “brigades” – around 61,000 men – of which eight are believed to be deployed along the line of contact. The combined ground units of the Nagorno-Karabakh forces and the Armenian army total some 60,000. However, overall Azerbaijani armed forces are bigger. Crisis Group email communication, UK regional expert, February 2011.

¹¹¹ See, Anatoly Tsyganok, “Power leverage of the states of the Greater Caucasus”, Polit.ru (in Russian), 3 January 2007. The International Institute for Strategic Studies estimates Azerbaijan’s armed forces at 66,940 and Armenia’s at 46,684. “The Military Balance 2010”, pp. 174-177.

¹¹² Sergei Minasyan, “Mechanism of Peacekeeping in Nagorno-Karabakh Conflict: Theory of Deterrence under the Armaments Race”, *Globus Energy and Regional Security*, no. 5, Yerevan, November 2010; Yuriy Roks: “Forcing them into war – Azerbaijan and Armenia have announced their armies’ combat readiness”, *Nezavisimaya Gazeta* (Russian newspaper, online), 10 November 2010. According to Roks, the Armenian air force has twenty MiG-25 and Su-25 aircraft and 30 Mi-8 and Mi-24 helicopters; the Azerbaijani air force has 37 aircraft, including 23 MiG-25s, four MiG-21s, one Su-25, one Su-24 and 35 helicopters, including fifteen Mi-24s and twenty Mi-8s and Mi-2s.

¹¹³ According to a January 2010 poll, some 70 per cent of respondents rejected any compromise as a basis for peaceful settlement of the conflict. R. Musabayov and R. Shulman (eds.), op. cit., pp. 17-18.

¹¹⁴ “Замглавы МИД Азербайджана обвинил армянскую сторону в безграмотности” [Azerbaijani deputy FM accused Armenian side in illiteracy], Day.az (in Russian), 28 August 2010.

difficult for Armenia to secure Russian military support by invoking the CSTO mutual defence provisions.¹¹⁵

But it is highly unlikely that fighting could be limited to a handful of territories. President Sargsyan has warned that if there is an offensive, Azerbaijan should expect “serious counterattacks and major surprises from the Armenian army”.¹¹⁶ Former President Ter-Petrosian, was careful not to present the 1990s war as a conflict between Armenia and Azerbaijan, in order to emphasise the battlefield role of Nagorno-Karabakh forces and to downplay the Armenian army’s involvement. The present Armenian leadership makes no such pretence.¹¹⁷ A premeditated resumption of hostilities by Armenian forces is not likely, but cannot be ruled out, as Yerevan commentators and some military officials, notably in Nagorno-Karabakh, warn of a “preventive war” if the entity comes under imminent threat.¹¹⁸

Armenian military analysts are confident of a tactical advantage, as their forces control most of the high ground around Nagorno-Karabakh.¹¹⁹ The northern positions are naturally well protected by the roughly 3,000-metre high Murov Mountains, while the lower, eastern flanks are mined and fortified by several lines of trenches. Any offensive beyond Fizuli and Jebrail would be literally and figuratively an uphill battle over difficult mountain terrain for Azerbaijan, requiring at least triple superiority in troops

and arms, or a significant combat air advantage that Baku lacks.¹²⁰

Morale and combat readiness in Armenia’s army is also generally considered to be higher than in Azerbaijan’s, which suffers from past defeats, extensive corruption and a rigid chain of command.¹²¹ Armenian analysts point to the greater number of Azerbaijani casualties in most front-line skirmishes.¹²² Suicides and hazing in the Azerbaijani forces are also regularly reported.¹²³ However, a recent spate of fatal hazing and other non-combat-related deaths, particularly in units in Nagorno-Karabakh, signal that Armenian superiority in morale may be exaggerated.¹²⁴

If war started, Azerbaijan civilians would be the more vulnerable, as cities, towns and new IDP settlements are close to the Nagorno-Karabakh line of contact. Major Karabakh Armenian settlements are deeper within territory the entity controls, and its troops are mostly deployed in sparsely populated zones. Armenian military officials are confident they can stop the more numerous, better-armed foe: “Our response will be asymmetrical; we will target their centres of gravity; we are more innovative and better trained”.¹²⁵ Armenian tactical missiles and large-calibre MLRS could strike Azerbaijan’s largest cities, including Baku. The army

¹¹⁵ Article 4 of the 1993 CSTO Treaty on Collective Security stipulates that “in case an act of aggression is committed against any of the States Parties, all the other States Parties will render it necessary assistance, including military, as well as provide support with the means at their disposal through an exercise of the right to collective defence in accordance with Article 51 of the UN Charter”, www.odkb.gov.ru.

¹¹⁶ “Not realizing this is, at the least, naïve” Sargsyan added. “Armenia warns of ‘serious counter-attacks’ if threatened”, Agence France-Presse, 28 January 2010.

¹¹⁷ Defence minister Seyran Ohanian said in January 2010, “the entire army personnel ... knows that the army command, including the defence minister, would be personally involved in all hot spots, which God forbid, may suddenly emerge on the borders of our republic and Artsakh [Nagorno-Karabakh] in order to defend our people”. Sargis Harutyunyan, “Сейран Оганян: Вероятность возобновления войны есть всегда” [Seyran Ohanian: There is always a probability of resumption of war], RFE/RL Armenian service (in Russian), 25 January 2010.

¹¹⁸ In 2007, then de facto Nagorno-Karabakh president (currently Armenian presidential adviser) Arkady Ghukasian told Crisis Group: “If we find that Azerbaijan’s actions pose a direct threat to the security of the people of Nagorno-Karabakh, we may launch a preventive military action to address the threat”, Crisis Group Report, *Nagorno-Karabakh: Risking War*, op. cit., p. 14.

¹¹⁹ Ibid.

¹²⁰ Crisis Group interviews, Yerevan, Baku and Brussels, October–December 2010.

¹²¹ Crisis Group interviews, Yerevan, November 2010.

¹²² Neither Armenian nor Azerbaijani defence ministries disclose full information on their losses. Based on information published throughout the year and confirmed by the defence ministry in Baku, local NGOs estimate some eighteen Azerbaijani servicemen were killed in the first eleven months of 2010. Crisis Group interview, Jasur Sumerinli, military analyst, “Doktrina” NGO head, Baku, December 2010. During the same time-frame, the Armenian defence ministry officially acknowledged the deaths of seven servicemen in ceasefire violations. “44 смертных случая в Вооруженных Силах Армении” [44 deaths in the Armenian armed forces], 1in.am (in Russian), 26 November 2010.

¹²³ See, Crisis Group Briefing, *Azerbaijan: Defence Sector Management and Reform*, op. cit.

¹²⁴ At least 37 servicemen died in the Armenian army in 2010 as a result of hazing and other incidents. Two major incidents occurred in Nagorno-Karabakh, in July and November, causing wide public anger throughout Armenian society and calls for Defence Minister Ohanian’s resignation. On 28 July, a senior lieutenant and five conscripts – all from Armenia – were killed as a result of conflict within a military unit stationed close to the line of contact in Nagorno-Karabakh; “An officer and 5 soldiers killed in Armenian military unit”, Panorama.am, 30 July 2010. On 19 November, a similar incident, also in a military unit stationed in Nagorno-Karabakh, left four soldiers dead and four wounded. “Soldiers arrested over deaths in Armenia, Karabakh”, RFE/RL, 22 November 2010.

¹²⁵ Crisis Group interview, defence ministry officials, Yerevan, November 2010.

has liquid-fuelled, road-mobile Scud-B (R-17) short-range ballistic missiles (SRMBs) and Chinese-made WM-80 MLRS. The former system has eight 9P117M rocket launchers and at least 32 R-17 missiles given to Armenia by the 7th Soviet Army when Soviet military property was divided up in the 1990s.¹²⁶ Armenian officials and analysts argue that even if Azerbaijan has obtained S-300 systems, they are not sufficiently integrated for robust defence.¹²⁷

Due to the predicted Armenian response and the difficulties Azerbaijani forces would likely have breaking through the lines around the occupied territories, hostilities would probably expand along the entire Armenian-Azerbaijani front, including undisputed sections, as happened in the 1990s. A potential flash point, where previous clashes have occurred, is the far northern section of the border, within a few kilometres of Georgia.¹²⁸

Azerbaijani “9K79-1 Tochka-U”¹²⁹ tactical ballistic missiles with a 15-70km range, theoretically could hit major Armenian and Nagorno-Karabakh population centres. However, SS-21 tactical missiles could be shot down by Armenian S-300 systems, integrated with Russian air-defence systems.¹³⁰ If placed near the frontline, they would also be vulnerable to artillery. Azerbaijani warplanes, especially its Mig-25s, Mig-29s, SU-25s and Mi-24 helicopter gunships, could strike targets deep in Armenian territory and establish air superiority but would be unlikely to gain air supremacy, because of the Armenian S-300s and the Mig-29 fighter interceptor squadron at the Russian base in Gyumri.¹³¹

Troops from Armenia proper could also counter an offensive by attacking strategic Azerbaijani targets, such as the Gazakh and Agstafa districts in the north west. Azerbaijan’s main international highway and railroad, as well as the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum natural gas pipeline, pass through these

districts and would likely be priority targets.¹³² Some Armenian military analysts and political observers suggest Ganje, Azerbaijan’s second-largest city (population over 300,000), could be targeted, as well as the central Barda-Yevlakh-Mingechevir region, including the Mingechevir water reservoir and power station. Damage to the latter facility would not only leave most of Azerbaijan without electricity but could also cause serious flooding, with grave humanitarian consequences. Attacks on the Kura River bridges might cut off Azerbaijani forces and isolate the entire western half of the country, including Ganje.¹³³

To ensure some accountability, Azerbaijan and Armenia should accede to the Rome Statute of the International Criminal Court (ICC).¹³⁴ Their accession would serve as an important deterrent to war crimes and crimes against humanity, in case of resumption of hostilities, and the ICC, along with the European Court of Human Rights (ECHR),¹³⁵ could provide an important supra-national avenue for holding governments and individuals within them responsible for their future actions.

B. REGIONAL STAKES

A resumption of hostilities over Nagorno-Karabakh could pose a larger challenge for regional and European security than the Georgia-Russia war of August 2008. The biggest risk is that regional powers, particularly Russia and Turkey, would be pressured to become directly involved contrary to their larger foreign policy interests.

Armenia would likely try to secure Russian military involvement by invoking CSTO mutual defence commitments, but Russian military participation would be far from guaranteed.¹³⁶ The Collective Security Treaty obliges Moscow to defend Armenia only against external aggression

¹²⁶ The range of R-17 missiles is up to 300km, with a circular probable error rate (up to 0.6km in long-distance scenarios).

¹²⁷ Crisis Group interviews, Yerevan, November 2010. The NATO name for the S-300 is SA-10 Grumble.

¹²⁸ Crisis Group interviews, military experts, diplomats, Yerevan, Brussels, October-November, 2010. Georgia has close ties to Armenia and Azerbaijan and would be in a very difficult position if war started; Azerbaijan would likely pressure it to close vital transport corridors between Russia and Armenia that cross its territory.

¹²⁹ NATO name: SS-21 Scarab-A.

¹³⁰ As of August 2010, Armenia had deployed two artillery battalions of the S-300PS air-defence missile system, beside two Russian artillery battalions of the S-300V air-defence missile systems.

¹³¹ Sergei Minasyan, “Mechanism of Peacekeeping in Nagorno-Karabakh Conflict”, op. cit.; and Crisis Group email correspondence, UK regional expert, February 2011.

¹³² Crisis Group interviews, Yerevan, November 2010. BTC transports one million barrels of oil per day.

¹³³ Crisis Group interviews, Yerevan, Baku, November 2010. Garegin Vardanyan, “Оборона или наступление? О плане войны с Азербайджаном” [Defence or offense? About the plan of war with Azerbaijan], Noravank.am, (in Russian), 27 July 2007.

¹³⁴ Armenia has signed the Rome Statute of the International Criminal Court but not ratified it, Azerbaijan has neither signed nor ratified. Since the deadline for signing the Rome Treaty expired on 31 December 2000, states that did not sign or did not ratify it before that date should accede to the treaty in a single step.

¹³⁵ As members of the Council of Europe, Armenia and Azerbaijan are both subject to ECHR jurisdiction.

¹³⁶ A high-level Russian diplomat said, if there is an Armenian-Azerbaijani war, “we won’t just jump in”. Crisis Group interview, Moscow, November 2010. The CSTO has never invoked the collective defence clause since its inception in the early 1990s.

and does not extend to the territory of Nagorno-Karabakh. Russia's Gyumri base agreement was modified in August 2010, however, when an extension was signed, to include security guarantees against general threats to Armenian security.¹³⁷ Officials in Yerevan say this would cover an Azerbaijani attack.¹³⁸

The agreement's commitment to supply unspecified modern military hardware is likely meant to address Yerevan's aspirations to procure and co-manufacture long-range precision-guided missiles.¹³⁹ However, the document, while detailing some expanded security guarantees, does not fully clarify Moscow's military obligation if war resumes over Nagorno-Karabakh. This ambiguity creates political leverage over both Armenia and Azerbaijan and to an extent serves to deter aggressive strategies. But if Russia chooses not to support Yerevan, it risks undermining its credibility and the CSTO's.¹⁴⁰ The large Armenian diaspora in Russia would take to the streets in Moscow and elsewhere, though Armenia would be unlikely to demand withdrawal of the Gyumri base or otherwise break military ties if Russia refused to intervene directly.

Being dragged into a war with Azerbaijan, with which it has developed good relations in recent years – chiefly over commerce, energy and the military – is clearly not in Russia's national interests.¹⁴¹ But to balance the Armenian-Russian alliance, Azerbaijan is strengthening its ties

with Turkey.¹⁴² Azerbaijani analysts are confident Ankara would be compelled to take military action if Azerbaijani statehood were threatened.¹⁴³ Turkish officials are more cautious, stating that they are doing all they can to persuade Baku war would be a "nightmare scenario". They add that "Turkey cannot resist the public pressure if there is an attack. We would be forced to send weapons. But we are not talking about sending troops, fighting side by side. We can't do that without NATO".¹⁴⁴

On 16 August 2010, days before the upgraded Russian-Armenian military deal was announced, Turkey and Azerbaijan signed a strategic partnership and mutual assistance agreement, stipulating they will support each other "using all possibilities" in the case of a military attack or "aggression" against the other.¹⁴⁵ Turkish diplomats suggested there are no firm commitments, and Azerbaijanis agree it does not amount to a mutual defence pact.¹⁴⁶ The Azerbaijani parliament ratified it in December 2010, but it has not yet been put to the Turkish parliament.¹⁴⁷

The polarising strategies of Armenia and Azerbaijan may try to put the two regional powers, Russia and Turkey, at loggerheads. But Russian-Turkish relations have greatly improved since 2002, when the Justice and Development Party (AKP) came to power in Ankara. A High Level Cooperation Council solidifies their strategic partnership; Russia has become Turkey's second biggest trade partner,¹⁴⁸ and the two cooperate on a major energy transportation project, the South Stream pipeline. Turkey plans to give Russia the contract for its first nuclear power plant. Three million Russians annually are now Turkey's biggest group of tourists. The two intend to introduce visa-free travel by April 2011, and Turkey has removed Russia from its national security threat list.¹⁴⁹

¹³⁷ The agreement extended the lease of Russia's military base at Gyumri, Armenia until 2044.

¹³⁸ Previous versions of the agreements said that Russian support would be limited to the case of an attack on Armenia in its Soviet-era borders. Armenian defence ministry officials consider the elimination of this qualifier significant, as it would appear to leave open the possibility of Russian intervention even if an attack was limited to Nagorno-Karabakh or the surrounding occupied territories. Crisis Group interviews, Armenian officials, Yerevan, November 2010. However, the amended agreement still conditions the use of Russian military forces stationed in Armenia on CSTO rules and the 1997 bilateral agreement on friendship, cooperation and mutual assistance.

¹³⁹ In the run-up to the signing of the new deal with Russia, Defence minister Ohanyan identified acquiring long-range precision-guided weapons as the "main direction" of the army's modernisation plan. "Armenia seeking long-range weapons", RFE/RL, 10 August 2010.

¹⁴⁰ "It will be a crisis for the Treaty of Collective Security That is why the Azeris feel very nervous; they don't have strong guarantees that Russia won't intervene". Crisis Group interview, Russian military analyst, Moscow, September 2010. The same analyst argued that in the midst of its own military reform, Russia does not currently have enough trained professional units to carry out a lengthy operation in and around Nagorno-Karabakh.

¹⁴¹ Some 1,000 Russians are deployed at the Gabala Radar station in Azerbaijan, which Moscow operates to detect distant missile launches. The lease is due to run out in 2012.

¹⁴² Based on the 1921 Kars Treaty, Turkey is the guarantor of the territorial integrity of Azerbaijan's westernmost region, Nakhichevan.

¹⁴³ Crisis Group interviews, Baku, November-December 2010.

¹⁴⁴ Crisis Group interview, official, Ankara, December 2010.

¹⁴⁵ Shahin Abbasov, "Azerbaijan-Turkey military pact signals impatience with Minsk talks – Analysts", Eurasianet.org, 18 January 2011.

¹⁴⁶ Crisis Group interview, official, Ankara, December 2010; Crisis Group phone interview, Rasim Musabeyov, Azerbaijan parliamentarian, January 2010.

¹⁴⁷ "Strateji tərəfdaşlıq müqaviləsinin mətni niyə açıqlanmır?" [Why is the text of the strategic cooperation agreement not released?], Milaz.info (Azerbaijan), 19 August 2010.

¹⁴⁸ Selcan Hacaoglu, "Turkey, Russia sign agreement on pipeline", Associated Press, 12 May 2010.

¹⁴⁹ "Russia no longer 'security threat' to Turkey", RIA Novosti news agency (Russia), 23 August 2010. "Turkey, Russia accelerate cooperation", *Daily News* (www.hurriyetdailynews.com, Turkey), 19 January 2011.

Neither Russia nor Turkey wants to damage the increasingly beneficial economic and strategic relationship over Nagorno-Karabakh. Peaceful transformation of the status quo is in the best interests of both, but officials are increasingly worried about the prospect of war.¹⁵⁰ Even with its ambitious foreign policy and cooperation and stability initiative in the South Caucasus, Ankara is aware that Moscow plays the bigger role in the region and is keen to persuade it to find a solution to the conflict.¹⁵¹

A resumption of hostilities would seriously undermine U.S. and EU energy interests. Both seek to develop the Southern Caucasus as an alternative source and transit route for energy imports to Europe. A full-scale war would also threaten the Caucasus air corridor that accounts for nearly 70 per cent of all NATO's military transport flights to bases in Central Asia, as well as the alternative overland supply route to Afghanistan via Azerbaijan.¹⁵²

V. CONCLUSION

Lack of progress in the peace talks to secure a framework agreement on basic principles is increasing the likelihood of an accidental war at any time or an all out offensive, probably by Azerbaijan, within the next few years. The status quo is unacceptable to Baku, and pressure is building on the government to act. Their respective combat capabilities, geography and tactical considerations suggest that neither side could easily or quickly win a war. More likely, the fighting would be intense and drawn out, affect large swaths of territory, endanger many civilians and destroy critical energy infrastructure.

This should discourage a major offensive, but Azerbaijan and Armenia equally should desist from the increasingly frequent skirmishes on the line of contact, their burgeoning arms race and belligerent rhetoric – all of which could draw them inadvertently into a war – and adopt measures to defuse the rising tension. The Azerbaijani leadership, which says the primary purpose of its military build-up is to pressure Armenia into diplomatic compromise, should recognise it has an objective interest to accept confidence-building measures to make the situation on the line of contact more transparent, less deadly and more controllable. More weapons in the area will exacerbate an already fragile

situation. Russia, as the leading mediator in this conflict, should cease supplying offensive arms and technology, and all states should adhere to the OSCE- and UN-recommended arms embargoes.

Conflict prevention should not prejudice the urgent need for agreement on the basic principles. Armenia and Azerbaijan face critical decisions that potentially carry political risks. Any additional delay will only further discredit the diplomatic process, embolden more radical voices within each society and make an already difficult decision-making environment for the leaderships even more challenging. The Minsk Group co-chairs should redouble their efforts and actively pressure Armenia and Azerbaijan to reach a basic principles agreement as the start on a lasting peace. After nearly two decades of intransigence, it is difficult to determine exactly what carrots and sticks can be effective in helping the sides to commit to a peace deal and its implementation. But the spectre of war should give new urgency to discussions in Moscow, Washington, Brussels and Ankara.

**Tbilisi/Baku/Yerevan/Istanbul/Brussels,
8 February 2011**

¹⁵⁰ It will be a “bloody war with no guaranteed victory”. Crisis Group interview, government official, Moscow, September 2010. Crisis Group interviews, Ankara and Yerevan, November and December 2010.

¹⁵¹ Crisis Group interview, government official, Ankara, December 2010.

¹⁵² Crisis Group email communication, military analyst, January 2011.

APPENDIX A

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 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 co-chaired by the former European Commissioner for External Relations Christopher Patten and 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.

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February 2011

APPENDIX C

CRISIS GROUP REPORTS AND BRIEFINGS ON EUROPE SINCE 2008

Balkans

- Kosovo's First Month*, Europe Briefing N°47, 18 March 2008 (also available in Russian).
- Will the Real Serbia Please Stand Up?*, Europe Briefing N°49, 23 April 2008 (also available in Russian).
- Kosovo's Fragile Transition*, Europe Report N°196, 25 September 2008 (also available in Albanian and Serbian).
- Macedonia's Name: Breaking the Deadlock*, Europe Briefing N°52, 12 January 2009 (also available in Albanian and Macedonian).
- Bosnia's Incomplete Transition: Between Dayton and Europe*, Europe Report N°198, 9 March 2009 (also available in Serbian).
- Serb Integration in Kosovo: Taking the Plunge*, Europe Report N°200, 12 May 2009.
- Bosnia: A Test of Political Maturity in Mostar*, Europe Briefing N°54, 27 July 2009.
- Kosovo: Štrpce, a Model Serb Enclave?*, Europe Briefing N°56, 15 October 2009 (also available in Albanian and Serbian).
- Bosnia's Dual Crisis*, Europe Briefing N°57, 12 November 2009.
- 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.
- Bosnia: Europe's Time to Act*, Europe Briefing N°59, 11 January 2011.

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- Azerbaijan: Independent Islam and the State*, Europe Report N°191, 25 March 2008 (also available in Azeri and Russian).
- Armenia: Picking up the Pieces*, Europe Briefing N°48, 8 April 2008.
- Russia's Dagestan: Conflict Causes*, Europe Report N°192, 3 June 2008.
- Georgia and Russia: Clashing over Abkhazia*, Europe Report N°193, 5 June 2008.

- Russia vs Georgia: The Fallout*, Europe Report N°195, 22 August 2008 (also available in Russian).
- Azerbaijan: Defence Sector Management and Reform*, Europe Briefing N°50, 29 October 2008 (also available in Russian).
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- Georgia-Russia: Still Insecure and Dangerous*, Europe Briefing N°53, 22 June 2009 (also available in Russian).
- Nagorno-Karabakh: Getting to a Breakthrough*, Europe Briefing N°55, 7 October 2009.
- 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.
- Georgia: Securing a Stable Future*, Europe Briefing N°58, 13 December 2010.

Cyprus

- Cyprus: Reversing the Drift to Partition*, Europe Report N°190, 10 January 2008 (also available in Greek and in Turkish).
- Reunifying Cyprus: The Best Chance Yet*, Europe Report N°194, 23 June 2008 (also available in Greek and Turkish).
- Cyprus: Reunification or Partition?*, Europe Report N°201, 30 September 2009 (also available in Greek and Turkish).
- Cyprus: Bridging the Property Divide*, Europe Report N°210, 9 December 2010.

Turkey

- Turkey and Europe: The Decisive Year Ahead*, Europe Report N°197, 15 December 2008 (also available in Turkish).
- Turkey and Armenia: Opening Minds, Opening Borders*, Europe Report N°199, 14 April 2009 (also available in Turkish).
- 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).

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Regional Offices and Field Representation

Crisis Group also operates out of over 25 different locations in Africa, Asia, Europe, the Middle East and Latin America.

See www.crisisgroup.org for details.

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