

## The Conflict over Nagorno-Karabakh: Causes, the Status of Negotiations, and Prospects<sup>1</sup>

Twelve years after the ceasefire of 1994, there has still been no final settlement of the Nagorno-Karabakh conflict. After all this time, several factors appear unchanged: The region is still home to economic blockades, and hundreds and thousands of refugees and internally displaced persons (IDPs) are waiting to return to their homes. The negotiations that began in 1992 under the auspices of the OSCE continue, while the ceasefire has proved stable, despite a worrying number of incidents and a high casualty rate at the Line of Contact.

Nonetheless, after a long period of stalemate in the peace process, the Minsk Group, the OSCE's mediating body, has, since 2004, once again succeeded in establishing an institutional negotiating mechanism between Armenia and Azerbaijan that has brought the opposed sides closer together. In 2006, hopes have focused on the possibility that the parties will reach a settlement during the current cycle of negotiation, and hopefully before the end of the year. This appears to be a matter of urgent necessity, as the Azerbaijani oil boom has already led to an arms race between the two countries, increasing the risk of a renewal of armed conflict over Nagorno-Karabakh in the coming years if the negotiations are not successful.

This article begins by discussing the structural causes of the conflict and the mediation process since 1992. It explores the reasons for its gaining momentum since 2004/2005 and analyses the current state of the process. Finally, it estimates the current prospects for settlement of the conflict.

### *Causes and Escalation of the Conflict*

While some causes of the conflict reach back to the pre-Soviet period, the majority are closely linked to the political, socio-economic, and administrative structures of the Soviet Union and the forces of dissolution in the USSR's final days.<sup>2</sup>

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2 For a detailed analysis of the causes of the conflict, see: Rexane Dehdashti, *Internationale Organisationen als Vermittler in innerstaatlichen Konflikten. Die OSZE und der Berg Karabach-Konflikt* [International Organizations as Mediators in Intrastate Conflicts. The OSCE and the Nagorno-Karabakh Conflict], Frankfurt am Main 2000, pp. 98-123.

From early on, Soviet nationalities policy strengthened the importance of nationality in society and politics. It established an ethnic-primordial understanding of nation and ascribed this differentiating factor great importance for individuals' chances of political and social advancement. The hierarchical national-federal structure of the state and the fact that establishing autonomous territories, assigning them to particular Soviet republics, and determining their powers were generally determined by the centre alone – as with the assignment of Nagorno-Karabakh to Azerbaijan in 1921 – generated conflicts and disputes over competences between the autonomous territories and the republics of the Soviet Union in which they found themselves.

A look at developments towards the end of the Soviet Union shows that relatively “successful” secession movements came into being above all where national minorities were in possession of a federal territorial entity, such as the Karabakh Armenians in Azerbaijan, and the Abkhazians and South Ossetians in Georgia. Although these legal titles had so far generally been symbolic and decorative in character, in the break-up of the Soviet Union, these autonomous entities, with their demarcated territories, quasi-national administrative structures and organs, represented a framework that could easily be used by their titular nations to represent their political interests.

National historiographies also played a crucial role in the development of the conflict. Decades before matters escalated, Armenian and Azerbaijani historians were already carrying out intensive disputes on the history of Nagorno-Karabakh and the question of who had rightful jurisdiction over the territory. In line with the dominant Soviet view, this debate was based on an ethnic-primordial concept of nationhood, in which there was no room for political-participatory elements. Long before the outbreak of war, this created conflicts in the nation-building ideologies of the two peoples by invoking mutually exclusive claims to Nagorno-Karabakh.

As the conflict escalated, furthermore, each side tended to interpret events against the background of its view of 19th and early 20th century history. On the Armenian side, the matrix of interpretation was dominated by the narratives of “threat”, “annihilation”, “loss of homeland”, and the “necessity of resistance”. On the Azerbaijani side, the events around Nagorno-Karabakh activated the old fear of facing a powerful opponent with influential allies.

#### *The Socio-Economic Dimension: Discrimination Versus Social Envy*

Many Armenians and some of the literature claim that systematic socio-economic discrimination against Karabakh Armenians in the Azerbaijan SSR is one of the main causes of the desire for a transfer of sovereignty to the

union republic of Armenia. As a peripheral rural area, Nagorno-Karabakh was certainly characterized by economic underdevelopment. However, in this regard, it bore a close resemblance to other agricultural areas of Azerbaijan, which also suffered from such structural weakness. The identification of the Karabakh Armenians with socially advantaged sections of the population of neighbouring Armenia also seems to have led to conflict. Further frustration was also generated by the fact that the large Armenian minority in Azerbaijan was virtually unrepresented in Baku's political and administrative apparatus – which was modelled on Soviet nationalities policy, with its focus on the titular nation.

Also interesting in this regard are observations according to which social envy and economic frustration on the part of the Azeri lower classes appear to have played a role in riots that targeted Armenian residents of Baku and Sumgait.<sup>3</sup>

#### *Escalation of the Conflict: Political Dynamics and Moscow's Policy*

In 1987, building on similar Armenian initiatives that had been a regular occurrence in the Soviet Union since the 1960s, movements in Nagorno-Karabakh and the union republic of Armenia began to demand that the territory be transferred to the Armenian SSR. Massive riots targeting the Armenian inhabitants of Sumgait and Baku in February 1988, during which neither the security forces of the Azerbaijan SSR nor the central government intervened, were crucial for the escalation of the conflict.

Immediately following the riots, Gorbachev's government attempted to use a two-track strategy to de-escalate the conflict: by deploying repressive means against the Karabakh movement while simultaneously adopting an economic and social programme for the territory. Moscow categorically rejected a transfer of sovereignty in order to avoid creating a precedent that could be applied to similar tension-riven areas in the Soviet Union. The attempt to use economic assistance to end the conflict failed, partly because the escalation had already progressed too far, but partly also because Armenian complaints of economic maltreatment, while they helped to legitimate the calls for the transfer of sovereignty, did not touch the conflict's core. Moreover, Moscow's position as an intermediary increasingly became entangled with an instrumentalization of the events in order to combat the centrifugal endeavours of the developing Armenian national movement – but also, to some extent, the Azeri one – which impacted negatively on the effectiveness of its policy, as well as on its credibility as a mediator.

As the Soviet government in Moscow and the centralist party apparatus increasingly lost power, local Communist elites faced the need to cope with

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3 Cf. Eva-Maria Auch, "Ewiges Feuer" in Aserbaidschan. Ein Land zwischen Perestrojka, Bürgerkrieg und Unabhängigkeit ["Eternal Fire" in Azerbaijan. A Land Between Perestrojka, Civil War, and Independence], in: *Berichte des BiOST* 2/1992.

the virtual disappearance of institutional support from Moscow for their positions. In an attempt to create a local power base by following a zigzag course between unsuccessful repression and *rapprochement* with the national opposition in each territory, the national nomenklaturas increasingly assumed the populist and nationalist rhetoric of the opposition, thereby contributing to the escalation of the conflict.<sup>4</sup>

#### *The Consequences of the War: Lasting Enmity and Internationalization*

The war led to the hardening of mutually hostile group identities in both societies. Flight and displacement resulted in the nearly complete territorial segregation of the two peoples. The absence of social and economic contacts since the outbreak of the war has led to each side preserving a distorted, hateful image of the other. Mistrust, one-sided accusations of guilt, and equally one-sided adoption of the role of victim hamper constructive engagement with the conflict to this day.

The tendency towards internationalization that is found in so many intra-state conflicts is pronounced in the case of Nagorno-Karabakh. The search for allies by both sides during long periods of the conflict brought a powerful external dimension into play. The varied interests and relationship structures, economic and political activities, as well as sometimes contradictory mediation initiatives of external actors and neighbouring states such as Russia, Turkey, Iran, and the USA have influenced the frameworks and dynamics of negotiations to various degrees.

#### *Conflict Mediation under CSCE/OSCE Auspices*

Immediately after the collapse of the Soviet Union, the Karabakh conflict emerged as the most acute crisis in the region. In March 1992, it was decided that the CSCE should lead the international community's mediation efforts. On the assumption that a ceasefire could be negotiated quickly, the CSCE Chairman-in-Office was charged with organizing a peace conference. The conference was to be held in the Belarusian capital, Minsk, and eleven participating States were given the task of preparing it. The Minsk Group, as it was henceforth known, originally consisted of Armenia and Azerbaijan, Russia, Turkey, the USA, France, Germany, Czechoslovakia, Sweden, Belarus, and Italy. Apart from the replacement of Czechoslovakia by Finland, the composition of the group remains the same today. Established merely to prepare the peace conference, the constant postponement of the same meant that

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4 For further details, cf. Barbara Maier, Die Renaissance der Nation auf den Trümmern der Ideologie [The Renaissance of the National on the Ruins of Ideology], in: *Links* 258/1991, pp. 31-35.

the Minsk Group soon developed into the CSCE/OSCE's *de facto* negotiating forum on the conflict.

#### *OSCE Mediation Initiatives from 1992 to 1996*

Under Italian chairmanship from March 1992 until November 1993, the negotiations concentrated above all on establishing a ceasefire. The Minsk Group presented the parties with a range of operational timetables. By defining a series of mutual concessions aiming at cessation of hostilities, troop withdrawals, and the acceptance of CSCE observers, these were intended to commit the conflict parties to a ceasefire.

In December 1993, Sweden was placed in charge of the negotiating forum. In contrast to the Italian chairmanship – under which negotiations had generally taken place with the participation of all the members of the Minsk Group, including Armenia and Azerbaijan – Sweden focused more strongly on shuttle diplomacy and confidential conversations between the chair and the conflict parties.<sup>5</sup> The significance of the Minsk Group's plenary sessions receded into the background. Given the ongoing fighting, reaching a ceasefire agreement remained the top priority. However, it took major Armenian territorial gains to the east and north of Nagorno-Karabakh to bring about a turning point. Faced with the threat of further losses in the northwest of the country, Azerbaijan agreed to a ceasefire on 12 May 1994 – one that has remained in place to this day.

Thereafter, all the efforts of the Swedish chair were focused on consolidating the ceasefire, initiating discussions on the key issues of the conflict, and arranging confidence-building measures. The Swedish chair also argued in favour of deploying a CSCE peacekeeping force.

The first problems between the chair of the Minsk Group and Western members of the forum, on the one hand, and Russia, on the other, had already emerged during the Italian chairmanship. These now came clearly to the fore and, in the course of 1994, led to the emergence of two parallel – and increasingly rival – negotiating tracks. This situation had a negative effect on the negotiating process as it gave the conflict parties the opportunity to switch between the forums, and thus to escape any pressure they faced to make concessions.

At the CSCE's Budapest Summit in December 1994, the participating States decided that in future the Minsk Group would have two co-chairs, one of whom would always be Russian. In return, Moscow agreed to the deploy-

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5 During the Italian chairmanship, Armenian and Azeri representatives of Nagorno-Karabakh took part in many meetings of the Minsk Group as "interested parties". Later meetings of the Minsk Group were only attended by nine participants, i.e. without Armenia and Azerbaijan. Currently, the roughly twice-yearly meetings of the co-chairs with the six other states of the Minsk Group serve mainly to keep the latter informed on developments in the discussions and to request help if necessary. Nagorno-Karabakh is integrated into the peace process via discussions with the co-chairs in Stepanakert.

ment of a CSCE peacekeeping force under certain conditions in the event of the parties' agreeing on basic principles for the settlement of the conflict.

The compromise led to an improvement in relations within the Minsk Group, even if the conflicts within the forum were not completely resolved. However, other factors now began to take on greater significance in keeping the members at loggerheads: The growing importance of Azerbaijani oil and the related geo-economic goals of the mediating states and regional actors placed the interests of several Minsk Group member states in competition with each other.

The talks held under the Finish-Russian co-chairmanship from April 1995 until December 1996 aimed at negotiating a political framework agreement. With a few exceptions concerning humanitarian issues, little was achieved by the end of 1996.

*High Level Planning Group und Personal Representative of the Chairman-in-Office*

The High Level Planning Group (HLPG) was established in December 1994, following the adoption of the Budapest Summit Decision. Consisting of military experts, it was assigned the task of drawing up proposals for the deployment of OSCE peacekeeping forces in the region. The various plans and proposals were to cover all aspects of a likely operation, including the size and characteristics of the force, command and control, logistics, allocation of units and resources, and rules of engagement. Although the absence of a political agreement means that none of the proposals have yet been put into practice, the HLPG continues to exist, albeit with a reduced staff of experts.

In August 1995, the OSCE established the office of the Personal Representative of the Chairman-in-Office on the Conflict Dealt with by the OSCE Minsk Conference (PRCIO). Headquartered in Tbilisi, the PRCIO and his five field assistants travel regularly between Baku, Stepanakert, and Yerevan. His tasks include supporting the OSCE Chairman-in-Office, the co-chairs of the Minsk Group, and the HLPG in their efforts to mediate a conflict settlement and plan the deployment of an OSCE peacekeeping force, to monitor and report on the situation at the Line of Contact, and to help in the development and implementation of confidence-building and humanitarian measures.

The OSCE's Lisbon Summit in December 1996 thus marked a low point in the peace process: The critical words of Chairman-in-Office Flavio Cotti reflected the OSCE's great disappointment at the lack of progress, which the Chairmanship blamed on the partners' unwillingness to make "essential concessions and constructive proposals".<sup>6</sup> In the face of strong protests from Armenia, but with the support of all the other OSCE States, a statement of the

6 In his Declaration of 2 December, the Chairman-in-Office also stressed that: "Even if the OSCE feels obliged to continue its efforts in resolving the conflict, the Parties must make it clear in the future that the extensive engagement of the OSCE is justified [...] In the final analysis, it is the Parties themselves who must settle their conflict." Declaration of the Chairman-in-Office, Federal Councillor Flavio Cotti, OSCE Summit Meeting of Heads of State and Government, Lisbon, 2-3 December 1996, REF.S/123/96, 2 December 1996.

OSCE Chairman-in-Office was attached to the Lisbon Document, which asserts that the territorial integrity of Azerbaijan and the highest degree of self-rule for Nagorno-Karabakh within Azerbaijan were recommended as the guiding principles for the settlement of the conflict.<sup>7</sup> This represented an almost traumatic development for the Armenian side, while Azerbaijan considered the international community to have endorsed its position. Immediately after Lisbon, the contradictions were more apparent than before.

*Mediation Initiatives under the Trilateral Chairmanship 1997-1998*

A trilateral chairmanship has existed since the start of 1997, comprising Russia, France, and the USA. On account of their diverse political and economic relations with Armenia and Azerbaijan, the co-chairs are key actors and have an unsurpassed collective potential influence. From a certain perspective, this combination appeared so ideal that no further rotation of the chairmanship has since taken place.

In 1997, within a short space of time, the co-chairs produced two peace plans that aimed at a multi-step process. While Baku expressed its agreement in principle, however, there was a split on the Armenian side: Although President Levon Ter-Petrossian accepted the proposal as a basis for negotiation, it was rejected by the opposition and parts of the government camp in Armenia, together with the leadership in Nagorno-Karabakh.<sup>8</sup> This led to the collapse of Ter-Petrossian's government and a dramatic breakdown of the peace plan. Armenia's new president was the incumbent prime minister, Robert Kocharian, who had been "president" of Nagorno-Karabakh until 1997. While Kocharian was considered to be a decisive supporter of the independence of the region from Azerbaijan, the fact that he came from Nagorno-Karabakh gave him a clear advantage over his predecessor when it came to the possibility of domestically justifying any compromise.

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7 Cf. Organization for Security and Co-operation in Europe, Lisbon Summit 1996, Lisbon Document 1996, Lisbon 1996, DOC.S/1/96, 3 December 1996, Annex 1: Statement of the Chairman-in-Office and Annex 2: Statement of the Delegation of Armenia, reprinted in: Institute for Peace Research and Security Policy at the University of Hamburg/IFSH (ed.), *OSCE Yearbook 1997*, Baden-Baden 1998, pp. 419-446, here: pp. 430-431.

8 In an impressively candid statement, Levon Ter-Petrossian argued insistently that the lack of a settlement would lead to a weakening of the Armenian negotiating position and ultimately block the country's social and economic development. Cf. Levon Ter-Petrossian, War or Peace? Time for Thoughtfulness, in: *Armenpress News Agency*, 3 November 1997.

*The Key Questions of the Conflict: Package Solution or Step-by-Step Settlement?*

The key questions of the conflict largely concern Nagorno-Karabakh's political status, the nature of security guarantees following Armenia's withdrawal from the occupied territories, the future of the Lachin Corridor, and the return of the refugees and IDPs to their homeland.

With respect to the future status of Nagorno-Karabakh, Baku, appealing to the international legal principle of the territorial integrity of states, has always stressed that the region belongs to Azerbaijan. At the same time, however, Azerbaijan has repeatedly signalled its readiness to allow Nagorno-Karabakh the "highest degree of autonomy" without, however, publicly giving details of what this means. The Armenian side, on the other hand, appeals to the right to national self-determination and demands independence for the territory or its incorporation into the state of Armenia.

The bulk of the occupied territories to the west, east, and south of Nagorno-Karabakh has been uninhabited since the flight of the Azeri population and is considered by the Armenian side to be a "security belt" and a bargaining chip for use in the negotiations over the status and security of Nagorno-Karabakh.<sup>9</sup> An exception is made for the Lachin Corridor, which connects Nagorno-Karabakh with Armenia. The Armenian side considers the need to retain this area a vital security interest.

The question of the return of refugees and IDPs focuses, in the first instance, on the return of ethnic Azeri refugees to the occupied territories, and the possibility of return to areas of Nagorno-Karabakh itself that were formerly settled by Azeris, the city of Shusha, in particular.<sup>10</sup> The Armenian side demands the return of Armenian refugees to areas near Nagorno-Karabakh which used to have a high proportion of Armenians, especially near to Shahumian.<sup>11</sup>

Since 1994, two alternative options for resolution have emerged: the first, dubbed the *package solution*, seeks to discuss all the key issues until the conflict parties can accept the results as a single package. By contrast, the *step-by-step solution* focuses on the process and aims to resolve the problems one by one, with some of the most important being left until later. The Armenian side believes that its interests are best represented by the package-based approach, which aims to deal simultaneously with withdrawal from the occupied territories and the questions of security and status. For its part, Azerbaijan supports a step-by-step approach, stressing that the status question can only be resolved following the return of the occupied territories.

In the course of the negotiations, various mediators have successively pursued different strategies: The Swedish chairmanship opted to seek a step-by-step solution but ultimately failed when the Armenian side refused to unilaterally give up its advantageous negotiating position by withdrawing from the occupied territories before negotiations on the status question had even started. In contrast, the Finnish-Russian co-chairmanship favoured the package approach. The trilateral chairmanship has so far made proposals oriented towards both the step-by-step approach and the package approach.

9 For the remainder of the text, these shall be referred to as the "occupied territories".

10 The right to return to the occupied territories is not disputed by the Armenian side, although the necessity of prior confidence building is stressed with regard to Nagorno-Karabakh. It is estimated that some 40-60,000 ethnic Azeris fled from Nagorno-Karabakh.

11 The war created hundreds of thousands of refugees and IDPs. An estimated 200,000 ethnic Azeris fled from Armenia and probably around 700,000 from the occupied territories and Nagorno-Karabakh. Estimates of the numbers of Armenian refugees/IDPs range between 270,000 and 310,000. By far the largest proportion fled from Azerbaijan, while a smaller number came from areas of Armenia near the border that were affected by the war.

Finally, in November 1998, the three co-chairs of the Minsk Group presented their “common state” solution.<sup>12</sup> The proposal, which aimed to resolve all outstanding questions in a single package, was however rejected by Azerbaijan. After two years of intensive but fruitless effort, the co-chairs initially took a back seat from distributing further proposals to the conflict parties.<sup>13</sup>

#### *Bilateral Presidential Discussions since and the Key West Opportunity 1999-2001*

The peace process only came back to life when the Armenian and Azerbaijani presidents held face-to-face talks on the occasion of a NATO summit in Washington in April 1999. In the following years, 17 further meetings took place between the two presidents with the involvement of the co-chairmen. On the basis of the progress being made in the discussions, in one of the first major foreign policy decisions of the new Bush administration, US Secretary of State Colin Powell invited the presidents to continue their negotiations in Key West, Florida, in April 2001. At first, the positive response of the co-chairs following the conclusion of the Key West discussions made it appear that the high expectations of the international community were going to be fulfilled. However, the momentum was lost soon thereafter and the “decisive” round of negotiations that had been planned for June in Geneva was cancelled.<sup>14</sup> Looking back, US co-chair Rudolf Perina stressed that the parties were “unbelievably close” to a resolution at this time.<sup>15</sup>

It appears that the collapse of the Key West talks can be attributed in large part to the uncertainty on the part of the two presidents that they were able to make the domestic case for the proposed settlement in the face of contrary public opinion and opposition in their own governments.

Thereafter, the serious illness of the Azerbaijani President Heydar Aliiev, the preparations and holding of presidential elections in Azerbaijan, presidential and parliamentary elections in Armenia in 2003, and the need for

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12 According to the media reports, while this plan foresaw Nagorno-Karabakh remaining a *de jure* part of Azerbaijan, it was also to be granted *de facto* independence, a constitution, armed forces, and a right to veto laws passed by the Central government in Baku that relate to Nagorno-Karabakh. Cf. Liz Fuller, OSCE Karabakh Peace Proposal Leaked, in: *RFE/RL Newslines*, 21 February 2001.

13 Cf. United States Mission to the OSCE/U.S. Department of State, Washington D.C., *Key West Background Sheet*, 3 April 2001.

14 Cf. Emil Danielyan, Parties, Mediators Still Hope for Karabakh Breakthrough, in: *RFE/RL Newslines*, 18 June 2001.

15 Cf. According to reports, the Key West discussions considered horizontal and confederative relations between Azerbaijan and Nagorno-Karabakh and a far-reaching legitimization of relations between Armenia and Nagorno-Karabakh, including a connecting corridor. In exchange, Baku was to receive a corridor connecting it to Nakhichevan through the southern Armenian district of Meghri. This would have – at the very least – severely curtailed Armenia’s previously unimpeded access to Iran, which Armenia saw as vital. Cf. *ibid*; cf. also Emil Danielyan, Karabakh Peace Process Again in Limbo, in: *Eurasia Daily Monitor* 53/2005, 17 March 2005; International Crisis Group, *Nagorno-Karabakh: A Plan for Peace*, Europe Report No. 167, 11 October 2005, p. 14.

the new leader in Baku, Ilham Aliiev, to consolidate his domestic position led to a long period of stagnation in the peace process.

#### *The Prague Process 2004*

In April 2004, the co-chairmen of the Minsk Group managed to initiate what has come to be known as the “Prague Process”. This was the name given to meetings between the foreign ministers of Armenia and Azerbaijan with the co-chairmen, which have taken place regularly ever since. The process also provided a framework for the Armenian and Azerbaijani presidents to hold several conversations when both were attending international summit meetings. In 2005, there was a gradual move towards more strongly focused negotiations.

The initiative launched by Azerbaijan at the UN General Assembly in November 2004 to adopt a resolution to identify and condemn a systematic Armenian policy of settlement in the occupied territories, the OSCE fact-finding mission in these territories in January to February 2005, and the parliamentary elections in Azerbaijan and constitutional referendum in Armenia in November 2005 interrupted the process for several months in each case.

The mediation process restarted in December 2005. A positive signal was given by the visit of the OSCE High Level Planning Group to the region from December 2005 to January 2006. This served to gather up-to-date information in connection with the Organization’s ongoing plans to deploy peacekeeping forces. It was noteworthy inasmuch as it was the first mission of its kind since 1997 to win the approval of all parties.

#### *A False Dawn: The Presidential Summits in Rambouillet and Bucharest 2006*

As a result of the positive developments in the Prague Process, the co-chairs organized a meeting of the presidents at Rambouillet near Paris on 10 to 11 February 2006. Although held on a far smaller scale than the Key West talks, international observers invested them with a similar level of hope.

The negotiations also featured a degree of urgency: In the preceding months, mediators and observers had repeatedly stressed the necessity of rapidly reaching an agreement on important questions, as it could be difficult to achieve necessary but domestically difficult-to-sell compromises once politicians start to focus on preparations for crucial elections at the end of 2006: In May 2007 and February 2008, Armenia is holding parliamentary and presidential elections, and the Azerbaijan parliamentary elections are due in October 2008.

The hope that the presidents would agree on basic principles of a resolution at Rambouillet was not fulfilled. In the attempt to give the process a second chance, the co-chairmen organized a further meeting between the presidents, in the run-up to which they undertook highly intensive diplomatic

activities and other persuasive efforts with the support of high representatives of their countries.<sup>16</sup> Nonetheless, the meeting between the presidents and foreign ministers at the summit meeting of the Black Sea Forum for Dialogue and Partnership in Bucharest on 4 and 5 June 2006 also remained without results.

The proposal made to the presidents at Rambouillet and Bucharest was that agreement should be sought on key fundamental principles, on whose basis a comprehensive settlement could be developed and agreed at some later date.<sup>17</sup> The proposal encompasses Armenian withdrawal from the bulk of the occupied territories, and the subsequent return of the Azeri refugees. Specific modalities were proposed for the districts of Lachin and Kalbajar, which lie between Armenia and Nagorno-Karabakh: They were to be demilitarized, but their return is to be dealt with at a later date. The proposal included the creation of a corridor between Armenia and Nagorno-Karabakh. The status of Nagorno-Karabakh was to be determined in a referendum, whose modalities were to be negotiated at a point in the future. Until then, Nagorno-Karabakh would remain legally part of Azerbaijan, but would also be granted an interim status that would allow the provision of international aid to the region. The stationing of international peacekeeping forces, bilateral security guarantees, and mutual assurances between the conflict parties that they would refrain from using or threatening to use force were intended to underpin the agreement.

In the view of the co-chairs, agreeing on these fundamental principles would enable immediate international assistance with demining, rebuilding infrastructure for refugees and IDPs returning to the occupied territories given back to Azerbaijan, and for Nagorno-Karabakh. It is also likely that agreement would smooth the way to a reorientation of Turkish-Armenian relations and hence to the lifting of all blockades.

To some extent, the proposal represents a combination of the step-by-step and package approaches: While agreement on the various elements is to occur concurrently, the elements themselves are to be implemented consecutively. This also applies to the status issue. While the transitional period for Nagorno-Karabakh may admittedly last for many years, an internationally recognized interim status and an agreement to determine the ultimate status

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16 From 23 to 25 May, the co-chairmen, together with Deputy Russian Foreign Minister Grigory Karasin, US Assistant Secretary of State Daniel Fried, and Ambassador Pierre Morel of France, traveled to the region in an attempt to urge the parties to reach a compromise. According to reports, both the French and US presidents appealed – in person or in writing – to the parties to take advantage of the opportunity to reach an agreement. Cf. Armenian, Azerbaijani Presidents to meet in Bucharest, in: *RFE/RL Caucasus Report* 19/2006, 2 June 2006.

17 The following information is drawn from a joint declaration by the co-chairs, cf. *Statement by the Minsk Group Co-Chairs*, OSCE Press Release, Moscow, 3 July 2006, as well as interviews with the US co-chairman, Matthew Bryza, cf. U.S. Says Aliyev, Kocharian Must Show “Political Will”, in: *RFE/RL News & Analysis*, 23 June 2006, and with the Armenian Foreign Minister, Vartan Oskanian, cf. Armenian Foreign Minister Elucidates Karabakh “Principles”, in: *RFE/RL Newswire*, 30 June 2006.

by means of a referendum would mean that an important principle decision had been made – one that largely meets Armenian demands for occupied land to only be returned once the status question has been settled. The co-chairs themselves described their proposal appositely as a “phased-package” approach.

In their public statements, the Armenian and Azerbaijani chief negotiators cited two areas in particular as barriers to an agreement: the question of the Kelbajar district, which, like Lachin, Yerevan wishes not to return until after the referendum, but which Baku demands should be returned along with the other territories<sup>18</sup> and the modalities of the proposed referendum, namely its timing and the scope of participation.

While the content of settlement proposals made in the course of the negotiations had so far been treated as highly confidential, following the failure of the Bucharest Summit, the co-chairs presented details of their proposals to the public for the first time. In a joint declaration of 3 July, they stressed that, in their opinion, the latest proposal represented the best possible opportunity for a fair and sustainable resolution of the conflict. They emphasized in unusually unambiguous terms that neither the continuation of the intensive mediating activities of the past months nor the elaboration by them of alternative suggestions at this point in time was expedient. Rather, a point had been reached at which Armenian and Azerbaijani leaders needed to demonstrate political will and initiative to reach a breakthrough in the peace process. The co-chairs would therefore initially withdraw. They would be ready to re-engage and help in concluding an agreement as soon as the parties themselves signalled that they were ready.<sup>19</sup>

It’s really up to the presidents now to decide whether or not they want to take the politically difficult and challenging decisions that are critical to bringing the framework agreement home. So we’re giving them some space, and we want them to demonstrate that they really do have the political will to take these next difficult steps [...] We’re encouraging them, we’re nudging them by taking a step back.<sup>20</sup>

Following the failure of the presidents’ meetings, which had so raised international expectations, with this statement, the co-chairs succeeded in transferring responsibility for further efforts to the parties themselves, instead of being held responsible by the parties for the lack of success in negotiations, as had frequently occurred before. At the same time, the parties were publicly called upon to take the initiative to restart negotiations.

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18 Statement of Armenian Foreign Minister Oskanian as quoted in: US Embassy Yerevan, *Media Review*, 30 June 2006; Liz Fuller, Nagorno-Karabakh: Mediators Take the Process Public, in: *RFE/RL News & Analysis*, 30 June 2006.

19 Cf. *Statement by the Minsk Group Co-Chairs*, cited above (Note 17).

20 Interview with the US co-chair Matthew Bryza, cited above (Note 17).

The Prague Process and the accompanying progress made in the peace process took place against the background of the changing conditions in the region. Especially since Key West, a number of developments have taken place that could be expected to encourage the conflict parties to see that compromise was in their interest on the basis of cost-benefit analysis.

*Changing Parameters in the Region*

One of the most important new and influential factors in the region is the oil boom in Azerbaijan. The oil pipeline from Baku via Tbilisi to the Turkish Mediterranean port of Ceyhan was brought on-line in May 2005. The pipeline brings Azerbaijan a great deal of revenue while also strengthening its self-assurance as a favoured partner for international investment and a future regional economic power. Since the pipeline opened, the Azerbaijani leadership has publicly announced its intention to invest a large proportion of the oil revenues in the military and calls attention to its "legitimate right" to "free" Azerbaijani sovereign territory using military means if necessary.<sup>21</sup> Azerbaijan had indeed already increased military spending by 51 per cent in 2005. An additional doubling to 600 million US dollars took place in 2006, and an increase to one billion US dollars was announced for 2007. Although the Azerbaijani army is still considered relatively weak, this development has still been enough to initiate an arms race with Armenia. Armenia raised its arms budget by 22.5 per cent in 2006, at the expense of urgently necessary investments in other areas.<sup>22</sup> A further increase to 228 million US dollars is planned for 2007, corresponding to nearly 18 per cent of that country's entire budget. Still, it will be effectively impossible for Armenia to raise nearly as much money for military expenditure as Azerbaijan, and this entails a risk of an increasing deterioration of the Armenian negotiating position.

The construction of oil pipelines and transport routes such as the Baku-Tbilisi-Ceyhan oil pipeline, the gas pipeline from Baku via Tbilisi to Erzurum, and the rail link from Kars in Turkey to Akhalkali in Georgia, the construction of which is due to commence in late 2006, and which will join up the rail networks of Azerbaijan, Georgia, and Turkey, have raised the importance of the South Caucasus as an energy supplier and transit region. The

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21 For one of numerous such examples, cf. the statement by President Aliiev in June 2006, in which he argued that the failure of international mediation had forced him to change his policy. Now, he said, he would reclaim Nagorno-Karabakh "by whatever means it takes". Cf. Azerbaijan's Aliyev Says Karabakh Talks "Hopeless", in: *RFE/RL News & Analysis*, 23 June 2006.

22 For details of the figures for military expenditure given in this paragraph, cf. *SIPRI Yearbook 2006, Armaments, Disarmaments and International Security*, Oxford 2006, p. 321 and p. 341; Vicken Cheterian, Uncontested ruler of Azerbaijan, in: *Le Monde Diplomatique*, 10 February 2006; Associated Press, *Armenia's Parliament on Wednesday passed a 2007 budget with a deficit equivalent to US\$155 million*, 29 November 2006.

transport routes in planning or completed are considered a foundation for the development of a new East-West transport corridor for trade between Asia and Europe. Armenia is excluded from these key developments. There has been increased Armenian-Iranian co-operation in this area in recent years, such as in the gas pipeline currently under construction from Tabriz in Iran to Meghri in Armenia, which should enable the future import of gas from Iran and Turkmenistan. Nonetheless, it is to be expected that Armenia's long-term trajectory, if there is no resolution to the conflict, will see it slip ever more towards the periphery of regional developments.

There have also been changes in the role of external actors in the Nagorno-Karabakh conflict.

The terrorist attacks of 11 September 2001 prompted the USA, in particular, to reconceptualize its policy towards the region to make it both considerably more active and increasingly oriented towards energy- and security-policy considerations.<sup>23</sup> For Washington, which aims to diversify its sources of oil, the Caspian Sea region has grown in overall importance as an alternative supplier of energy to OPEC. At the same time, the significance of the South Caucasus in terms of security has risen in connection with the fight against international terrorism. Since then, threats emanating from the "frozen conflicts" and territories largely outside the reach of government control are taken more seriously, i.e. the illegal transfer of money, drug and arms smuggling, and the possible use of these regions as safe havens for terrorists. This is accompanied by a growing involvement in conflict resolution and a willingness to engage more intensively and insistently with the conflict parties.

With some delay, the EU has also come in recent years to define diversifying its energy supply and increasing energy security as vital interests with respect to the South Caucasus. At the same time, the EU's eastward enlargement and the start of accession negotiations with Turkey have brought the South Caucasus geographically closer to the EU. The inclusion of the region in the 2004 European Neighbourhood Policy (ENP), the appointment of an EU Special Representative for the South Caucasus in 2003, and the strengthening of his mandate in view of the region's conflicts in 2006 demonstrate a significantly more active involvement in the region on the part of the EU.

A transformation can also be seen in Russian policy towards Armenia and Azerbaijan. In comparison to the 1990s, there has been a shift from a policy determined by geopolitical competition and focused on preserving hegemony, to one defined more strongly by economic factors. Against the background of an intensified strategic partnership with Armenia, Moscow has also built up its co-operative relations with Azerbaijan in recent years. With

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23 Cf. Brenda Shaffer, US Policy, in: *The South Caucasus, A Challenge for the EU*, Chaillot Paper No. 65, Paris 2003, pp. 53-62; Brenda Shaffer: A Caspian Alternative to OPEC, in: *The Wall Street Journal*, 11 July 2001; U.S. Says Aliyev, Kocharian Must Show "Political Will", cited above (Note 17).

regard to energy issues, among other fields, both co-operative and competitive structures can be observed to obtain between Russia and Azerbaijan (which is one of the GUAM states). Political antagonisms between them include the issue how to deal with the “frozen conflicts” and the role of the West in the region. All in all, thanks to its increasingly diversified range of interests, Moscow, although it continues to have vital interests in the region and to strive to limit Western influence, is taking a more pragmatic course with regard to Azerbaijan, in which it increasingly makes use of economic and diplomatic instruments.

All in all, and despite the continued existence of ambiguities, the external actors appear to be currently playing a more positive role than in earlier phases of the Nagorno-Karabakh conflict.<sup>24</sup> What remains problematic is that the nature of these actors’ relations to the conflict parties may contribute to preserving the current alignment of forces and thus to postponing a resolution. Examples of this could include Turkey’s one-sided relations with Azerbaijan and its blockade of Armenia. To some extent, external actors also benefit from the existence of the conflict. The current situation provides Iran, for instance, with better opportunities to counteract its international isolation and expand its relations with Armenia. Thus, for example, the expansion of the “North-South Transport Corridor” is facilitated by the fact that Armenia, with blockades to the east and west, has no alternative but to expand its co-operative relations to the north and the south.

However, although the meshwork of external relations contributes to the stagnation of the peace process, it does not amount to a deliberate policy to thwart a settlement. Rather, it appears that, despite the ongoing existence of contradictions and competing interests in the region, Nagorno-Karabakh is one of those areas in which key actors such as Russia, the USA, and the EU are displaying an increasing willingness to co-operate. The three co-chairs of the Minsk Group constantly and unanimously stress their positive co-operation. While the three co-chairing countries work visibly together in the trilateral framework to achieve a settlement of the conflict, they tend to make use of “softer” instruments, i.e. persuasion, political pressure, canvassing for support from other actors, and issuing joint statements. An example of this is the declaration made by the G8 states on 17 July 2006. The declaration supports the work of the Minsk co-chairs, stresses the necessity of agreement being reached on the basic principles of a peaceful solution before the end of 2006, and calls upon the conflict parties to prepare their societies for peace.

There has been no genuine “power mediation”, e.g. via the deliberate and sustained application of sanctions and incentives, probably partly as a result of the interest of the co-chair states in retaining constructive relations with both Armenia and Azerbaijan.

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24 For a detailed discussion of the role of external actors up to 1998, cf. Dehdashti, cited above (Note 2), pp. 283-353.

The current framework conditions could also change as a result of a further escalation in the dispute over Iran's nuclear programme. If there is no resolution to this crisis, it could result in strong international pressure being placed on Armenia and Azerbaijan to join a future sanctions regime against Teheran.<sup>25</sup> While this would contradict the economic and political interests of *both* states, which value their constructive relations with their southern neighbour, ultimately, however, Armenia would be far more seriously affected, as the longer-term blockades affecting it make it highly dependent on its links with Iran.

*Rambouillet and Bucharest: The Issues of "Ripeness" and Timing*

The basic principles discussed at Rambouillet and Bucharest are part of a balanced and workable proposal that goes towards meeting the key interests of both sides and is capable of overcoming not only the contradictions between them but also the domestic restrictions hampering both conflict parties. The fact that elections are due in 2007 and 2008 created an atmosphere of urgency during the meetings of the two presidents. All parties were aware that the failure of the talks would lead to a deterioration of negotiating conditions for a considerable length of time and that they were not likely to improve before 2009.

Following the two rounds of discussions, it was stressed several times that the parties had never been so close to a settlement.<sup>26</sup> (Key West may have been the exception.) Apart from some questions of content, three factors appear to have been decisive for the failure of negotiations in Rambouillet and Bucharest:

- Both presidents were uncertain as to whether they will be able to sell a compromise domestically and survive undamaged.
- Azerbaijan's high oil revenues mean it is likely to be in a significantly stronger negotiating position in a few years.
- Armenia interpreted the establishment of an independent Montenegro and developments in the Kosovo question as providing momentum for the Karabakh Armenians' claims for independence.

In 2006, just as in 1998 and 2001, one of the main issues blocking a resolution of the conflict has been the fear on the part of the Armenian and Azerbaijani negotiators of an unwillingness to compromise in their own societies. The two governments have so far undertaken virtually nothing to prepare their populations for the necessity of concessions. On the contrary, both gov-

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25 Cf. Richard Giragosian, Trouble in the Neighborhood: A Look at Armenia's Place in the Geopolitics of Regional Conflict, in: *Armenia Now* 21/2006.

26 Cf., for example, the comments of US co-chair Matthew Bryza in: Peace Talks not Deadlocked Despite Exhausted Mediating Efforts, in: *Today.Az*, 10 July 2006.

ernments and oppositions have regularly made use of the conflict to raise their domestic profile. Populations that have for years experienced a public discourse in which maximal goals are seen as achievable and compromise is considered treasonous, combined with marginalized domestic oppositions that would in all likelihood be prepared – as would perhaps some political rivals from within the governing camp – to make use of this fact for their own advantage if a settlement were reached, make dealmaking a risky undertaking for the presidents and ultimately restrict their room to manoeuvre quite considerably. This problem is exacerbated by general legitimation difficulties suffered by leaderships that tend towards the authoritarian. In this regard, the fall of President Ter-Petrossian in 1998, caused in large part by his willingness to compromise in the negotiations, continues to cast its shadow.

The declared intention of the Azerbaijani government to invest much of its oil revenues in the coming years in the military and to reconquer the occupied territories using force if necessary has already been discussed. Even if the Azerbaijani leadership is quite aware that a war – in all likelihood a long one – would entail major problems for the country's investment climate, this does not mean that the search for a solution is being performed with any urgency in Baku, at least at present. On the contrary, from the Azerbaijani perspective, it seems reasonable to expect that in a few years, it will be possible to successfully translate improvements in the Azeri position into gains in the negotiations.

According to the theorist of mediation I. William Zartman, conflicts can be considered “ripe” for resolution when both conflict parties find themselves facing a “mutually hurting stalemate” – a deadlock that hurts them on an ongoing basis and they are unlikely to be able to bend to their advantage via confrontational and unilateral actions in the foreseeable future. In such a situation, an atmosphere of urgency strengthens both parties' willingness to work towards a settlement.<sup>27</sup>

This thesis does possess explanatory power in the current situation, as a closer examination of the context casts doubt upon whether the prerequisites for conflict “ripeness” have been met. It seems that current developments have mostly placed one party, namely Armenia, under significant pressure, while Azerbaijan can still assume that further waiting will strengthen its negotiating position. Furthermore, despite serious concerns related to the consequences of Azerbaijani oil revenues and its own increasing isolation or marginalization, Armenia, too, can look to the Balkans and see at least some cause for optimism in case of further postponement: Armenian Foreign Minister Vartan Oskanian sees the founding of the state of Montenegro and the growing international support for Kosovan independence as an international

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27 Cf. I. William Zartman, *Ripe for Resolution: Conflict and Intervention in Africa*, New York 1985; I. William Zartman, *The Strategy of Preventive Diplomacy in Third World Countries*, in: Alexander L. George (ed.), *Managing US-Soviet Rivalry*, Boulder 1983, pp. 341-364.

tendency towards strengthening the right to national self-determination. Thus, in the spring of 2006, he drew the following conclusion: “The longer Nagorno-Karabakh maintains its de-facto independence, the harder it will be to reverse the wheel of history.”<sup>28</sup>

The failure of the parties to take steps to prepare their respective populations for the need to compromise is particularly problematic given the various elections that are due to be held starting in 2007. Numerous appeals to this effect by representatives of friendly countries and international organizations to the governments in Baku and Yerevan have so far been without effect. Efforts made by the Minsk Group, the Personal Representative of the Chairman-in-Office, and other OSCE structures as well as other international organizations and NGOs to initiate practical co-operation or confidence-building measures between representatives of state or civil society structures have, with few exceptions, foundered on the resistance of the officials. Where partial successes were recorded, a deliberate effort was often made to avoid the media spotlight for fear of endangering what had been achieved. However, without the appropriate publicity, it is not possible to realize confidence-building effects on a broad scale. The result is that a sense of enmity and mutual mistrust remain, and there has been absolutely no constructive engagement with the conflict and its causes. At the same time, a comparison with the Georgian-South Ossetian and Georgian-Abkhaz conflicts shows that there is a great scope for practical co-operation projects, societal contacts of all kinds, and civil conflict management.

A further obstacle consists in the fact that the parties have, on various occasions, made their consent to activities of this kind dependent on the positive outcome of the negotiations. In this way, they have effectively made such measures part of the problem rather than a means to a solution. On the other hand, it can also be argued that successful confidence-building and the shift to a more reflective intra-societal discourse can increase the willingness of the sides to compromise and expand the leeway available to the negotiators with regard to domestic policy, ultimately improving the chances of a conflict settlement being achieved. It is therefore urgent that co-operation with the parties in this area be intensified with the aim of increasing their active participation in confidence-building measures. There is also an opportunity for the EU to make use of Armenia and Azerbaijan’s enormous interest in the European Neighbourhood Policy in order to increase the emphasis placed on the need for such activities and to increase the number of proposals made to the parties in this area.

Although the ceasefire currently appears stable and the Prague Process has made steps forward, there are indications that a continuing lack of tangible progress in the negotiations may carry a risk of destabilization. If the

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28 Statement by the Foreign Minister of Armenia, Vartan Oskanian, in the Armenian Parliament during a hearing on the Nagorno-Karabakh conflict in March 2005, cited in: *Nagorno-Karabakh: A Plan for Peace*, cited above (Note 15) p. 11.

process were to stagnate for several years, it could exacerbate various negative factors, such as the marginalization of Armenia in the region, the Armenian-Azerbaijani arms race, and could even restrengthen the aggressive rhetoric exchanged between the sides. This causes a problem by itself inasmuch as, as experience has shown, sabre-rattling rhetoric not only affects one's opponent, but also has a – potentially unintentional – fatal effect on one's own side: It can determine public expectations and thereby generate considerable pressure on the leadership to actually take military action under some circumstances.

### *Recent Developments*

Following the failure of the Bucharest presidential summit, there were heightened exchanges of rhetoric between the parties, and Azerbaijan accused Armenia of igniting large fires in the occupied territories. Baku attempted to have the UN General Assembly pass a resolution to this effect. This initiative reflected Azerbaijan's long-held goal of increasing the involvement of the United Nations in the conflict by means of a resolution on the occupied territories, thereby also increasing the prominence of the principle of territorial integrity in the settlement of the conflict. Armenia categorically rejected this attempt by Azerbaijan to involve the UN, just as it had every previous one. Nonetheless, mediation efforts, undertaken primarily by the co-chair states, succeeded in achieving agreement on the text of a resolution that was acceptable to both sides. The resolution of the UN General Assembly of 7 September 2006 noted the OSCE's intention, with the support of the United Nations Environmental Programme (UNEP), to organize a mission to the region "to assess the short- and long-term impact of the fires on the environment as a step in preparation for the environmental operation".<sup>29</sup> While the adoption of the resolution represented a political success for Azerbaijan, its text amounted to a successful compromise.

From 3 to 13 October, the Co-ordinator for OSCE Economic and Environmental Activities led an international assessment mission to the affected areas. The mission concentrated on an entirely technical examination and analysis of the situation and, in its report, gave a number of recommendations on how to prevent further outbreaks of fire and to deal with the damage already caused. The mission was adjudged a successful confidence-building measure: It was successfully carried out in compliance with the agreed Terms of Reference and was also notable for including not only international experts, but also Armenian, Azerbaijani, and Karabakh-Armenian specialists.

In September 2006, immediately following the passing of the UN resolution, the co-chairs recommenced their intensive diplomatic efforts. Following a four-month break, and after several individual discussions with

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29 United Nations General Assembly, A/RES/60/285, 15 September 2006: The Situation in the occupied territories of Azerbaijan.

the various foreign ministers and presidents, direct negotiations on the basic principles of a settlement were continued in October and November in three meetings with the two foreign ministers in Moscow, Paris, and Brussels. These paved the way for the third meeting that year between the presidents, which took place on 28 November on the occasion of the CIS summit in Minsk.<sup>30</sup> Both sides were positive about the discussions held in the Belarusian capital: President Aliev announced that the sides were approaching the final stage of negotiations and that they were discussing the most contentious issues and had lately succeeded in resolving some of those questions they had previously disagreed on.<sup>31</sup> Foreign Minister Oskanian stated that the meeting raised hopes that there was a possibility of achieving agreement on even the very difficult issues.<sup>32</sup>

Oskanian also made a remarkable statement in this connection, according to which the parliamentary elections due to be held in Armenia in the spring would not lead to an interruption in the negotiating process, and that a fourth meeting of the two heads of state might even be possible before the Armenian elections in May 2007, while a further summit was planned for after the elections.<sup>33</sup> Although the co-chairs had, in the preceding months, repeatedly drawn attention to the narrow window of opportunity created by the series of elections due to commence in 2007, thus stressing the importance of a breakthrough in negotiations, now, in the second half of the year, both the co-chairs and the parties were explaining – albeit using comparatively restrained language – that the impending elections would not necessarily be an obstacle to continuing the negotiations.<sup>34</sup>

### *Outlook*

Following the failure of the summit meetings in Rambouillet and Bucharest, with which a great deal of expectation had been bound up, the OSCE-led “fire mission” and the meeting in Minsk appear to once more supply grounds for hope that the negotiations will be able to carry on in 2007 despite the elections.

A number of factors could improve the parties’ willingness to compromise.

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30 Cf. *Joint Statement by OSCE Minsk Group Co-Chairs*, OSCE Press Release, 30 November 2006.

31 Cf. *Azerbaijani President Says Karabakh Talks Nearing “Final Stage”*, in: RFE/RL, News & Analysis, 29 November 2006.

32 Cf. *Nagorno-Karabakh: OSCE Says Solution in Sight*, in: RFE/RL, News & Analysis, 5 December 2006.

33 Cf. Liz Fuller, *Caucasus: Azerbaijani, Armenian, Karabakh Officials Assess Talks*, in: RFE/RL, News & Analysis, 1 December 2006; *Azerbaijani President Says Karabakh Talks Nearing “Final Stage”*, cited above (Note 31).

34 Cf. Emil Danielyan, *Nagorno-Karabakh: U.S. Mediator Says Elections No Obstacle to Accord*, in: RFE/RL, News & Analysis, 31 July 2006.

For instance, the escalation of the conflict between Russia and Georgia and the ongoing closure of the only legal Russian-Georgian border crossing at Zemo Larsi (Verkhni Lars) in July 2006, plays a role in this by exacerbating the blockade situation in which Armenia finds itself. UN Security Council Resolution 1737 of 23 December 2006, with which the international community imposed the first set of sanctions on Iran, creates additional pressure by increasing the likelihood of more extensive international sanctions on Armenia's neighbour, which would threaten Armenian-Iranian cross-border commerce.

At the same time, the Azerbaijani side appears to be increasingly acknowledging that the military option entails major risks for the economic and political development of the country. Consequently, on the Azerbaijani side, there can currently be observed a tendency to restrain military rhetoric in favour of stressing Azerbaijan's future economic superiority to Armenia, and the non-military options for resolving the conflict that will arise as a result.<sup>35</sup>

The declared willingness of, above all, the Armenian side, to continue negotiations, even to an extent immediately prior to or after the elections due in the spring of 2007 is positive. However, it must be assumed that these negotiations will be carried out under considerably more difficult conditions. Aside from the danger of matters that are up for negotiation becoming issues within the election campaigns, the forthcoming elections could also change the balance of power in parliament. Furthermore, Armenia also is about to change personnel in key leadership and negotiating positions, which could also lead to delays in the negotiating process or changes in the Armenian position: After serving two terms, Robert Kocharian cannot stand again for president, while Vartan Oskanian has declared his intention to step down as foreign minister before the presidential elections in 2008. In addition, Arkady Gukasyan, the Karabakh Armenian "president" since 1997, has announced that he will not stand again in the unrecognized "presidential elections" in August 2007.

It remains to be seen whether the parties that find themselves in this situation will succeed in working constructively and making use of above all the second half of 2007 – i.e. the period between the parliamentary elections in Armenia and the presidential elections in both countries – to achieve agreement on the questions that remain up for negotiation.

With regard to the initiation of urgently necessary confidence-building measures, the OSCE "fire mission" and the recommendations of the expert group could provide a basis on which to build. This is helped, on the one

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35 On this, see President Aliiev's address at the opening of the Azerbaijani parliament on 2 October 2006 (*AzerTag*, 2 October 2006): "The strengthening of military potential does not lead automatically to war. This is the last version [...] I am convinced that using our political, economic, diplomatic and regional factors, we shall be able to exert pressure on Armenia [...] We must be active in all spheres [...] We must use economic factors, and these opportunities will increase gradually [...] After Azerbaijan gets 100 times richer than Armenia, perhaps, there will be no need for the option of war."

hand, by the fact that the international community's interest in this mission was the result of an Azerbaijani initiative, i.e. of the party that has so far been the most reluctant to take joint action with its opponents. At the same time, the text of the UN resolution had already laid a foundation for further confidence-building co-operation between the parties in this field by explicitly referring to the mission as only "a step in preparation" for a further-reaching "environmental operation", the importance of which is mentioned elsewhere in the resolution.<sup>36</sup>

A more sustained engagement in this area by the international community would provide an opportunity to encourage the conflict parties to develop and implement concrete joint measures. Particularly in the case that the current round of negotiations does not bear fruit, such joint measures could help to improve the starting position of future talks. They could also go a small ways towards counteracting the risk of a lengthy period of stagnation resulting in members of both societies discussing alternatives to negotiation that might entail a danger of escalation.

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36 Point 1 of the resolution states: "[The General Assembly] stresses the necessity to urgently conduct an environmental operation to suppress the fires in the affected territories and to overcome their detrimental consequences." In point 3: "[The General Assembly] takes note of the intention of the Organization for Security and Cooperation in Europe to organize a mission to the region [...] as a step in preparation for the environmental operation". United Nations, A/RES/60/285, cited above (Note 29).