RUSSIAN FOREIGN POLICY IN SOUTH CAUCASUS UNDER PUTIN

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Abstract

This article examines Russian foreign policy in the South Caucasus starting from Vladimir Putin's first inauguration as President of the Russian Federation in May 2000, until the end of the five-day war between Georgia and Russia that took place in August 2008. Although Moscow, during this period, mostly utilized political and economic tools to exert influence and dominance over the three small South Caucasian states, it did not hesitate to commence a military campaign in the region once the new administration in Kremlin perceived the Georgian attempt to regain control over its separatist entity South Ossetia as a major assault to Russian national interests.

Key Words

Russia, South Caucasus, Armenia, Azerbaijan, Georgia, asset acquisition, August War.

Introduction

On December 31, 1999, while most of the Russians were celebrating the upcoming new century like the rest of the world, Russian President Boris Yeltsin announced that he was resigning from his post and handed over the powers of President to Prime Minister Vladimir Putin. After stating that his was a decision that was taken after long and painful pondering, Yeltsin explained that Russia should enter the new millennium with new politicians, new faces, and new people who were intelligent, strong, and energetic who, in addition, would do more and better than the ones that had been in power for many years.[1]

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1 Presidential Speeches, Statement by Boris Yeltsin, 31 December 1999, available at < http://www.kremlin.ru/eng/speeches/1999/12/31/0003_122617.shtml> [19 May 2009].

The 26 March 2000 presidential elections made the Acting President Vladimir Putin the new leader of Russia. One of the first actions of the new President was the revision and reformulation of national security and foreign policy concepts as well as the military doctrine of the Russian Federation that dated from the Yeltsin era. All three revised documents accentuated the Russian determination to facilitate the achievement of a multi-polar system of international relations despite outside attempts to hinder Russia's efforts in this direction.[2] While the possible emergence of foreign military bases and major military presences in the immediate vicinity of the Russian state, the outbreak and escalation of conflicts near the borders of the country, territorial claims on Russia and the creation, equipping and training on other states' territories of armed formations with a view to transfer them for operations on the territory of the Russian Federation were cited as the main external threats; ensuring the sovereignty and territorial integrity of Russia plus guaranteeing the security of its border lands were articulated as the principal tasks of the Russian administration.[3] The new blueprints also emphasized that Russia must be prepared to utilize all its available economic levers and resources for upholding its national interests.

Russia demonstrated a noticeably renewed interest in South Caucasus under the presidency of Putin in conformity with the abovementioned principles. Appraising the expansion of NATO eastwards as contrary to its national interests, Moscow fought hard to crumple and encumber the integration of regional states into transatlantic structures. Bringing the separatist Chechen Republic back into the country's political and legal space, and thus restoring the territorial integrity of the Russian Federation, became the major objective of the Russian government[4] especially after Chechen militants headed by Shamil Basayev and Emir Khattab launched an attack on the mountainous Botlikh region in Dagestan, took control of two villages

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2 2000 Russian National Security Concept, available at < http://www.russiaeurope.mid.ru/russiastrat2000.html> [19 May 2009], The Russian Federation Military Doctrine, available at http://www.armscontrol.org/act/2000_05/dc3ma00.asp?print [19 May 2009] ;The Foreign Policy Concept of the Russian Federation, available at http://www.fas.org/nuke/guide/russia/doctrine/econcept.htm>[19 May 2009].

3 Ibid.

4 Vladimir Putin, "A State of the Nation Address to the Federal Assembly of the Russian Federation", Moscow, May 16, 2003, *International Affairs (Moscow),* Vol. 49, No. 4 (August 2003), pp. 3-4.

therein and proclaimed the Islamic Republic of Dagestan in August 1999.[5] Russia did everything in its capacity, including military bullying, introduction of a visa regime, overtly backing secessionist entities and cutting off natural gas supplies in the middle of winter, to arrest any kind of political, economical and moral support to Chechen militants from the capitals of the South Caucasian states. In the economic sphere, Russia strived to sustain its position as being the chief provider of energy supplies to these South Caucasus states, a cardinal leverage which it made use of in order to appropriate valuable assets of some of these countries.

This paper aims to trace the details of Russian foreign policy in the South Caucasus under the leadership of Putin by examining the security and financial aspects of Russia's bilateral relations with Armenia, Azerbaijan and Georgia.

Russia and Georgia: A Difficult and Convoluted Relationship

Russia had the most gruelling and problematical relationship in South Caucasus with Georgia. Tbilisi's efforts to forge closer ties with the USA and the EU, as well as the country's drive to join NATO, its reluctance to support Russia in its struggle with the Chechen insurrection and the Georgian government's insistence on closure of the Russian military bases on Georgian soil, incited an upfront demur on the Russian side whereas Moscow's shoring up of secessionist districts of Abkhazia and South Ossetia morally and materially, enraged Georgia and compelled it to step up its moves to dissociate itself from Russia.

Georgia harboured thousands of Chechen refugees at the beginning of the second Russo-Chechen war and settled them in the Pankisi Gorge where Georgian citizens of Chechen origin (called Kists) resided. Furthermore, when Russian President Boris Yeltsin asked his Georgian interlocutor Eduard Shevardnadze to use military bases in Georgia to support attacks against Chechen insurgents, Shevardnadze rejected this request.[6] The Georgian

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5 Tracey C. German, *Russia's Chechen War,* New York, NY, RoutledgeCurzon, 2003, p. 151.

6 Zeyno Baran, "The Caucasus: Ten Years after Independence", *The Washington Quarterly,* Vol. 25, No. 1 (Winter 2002), p. 224 and Revaz Gachechiladze, "Geopolitics in the South Caucasus: Local and External Players, *Geopolitics*, Vol. 7, No. 1 (Summer 2002), p. 131.

government allowed the operation of a Chechen Representation Office and Information Center in Tbilisi and a Chechen Information Bureau had begun publication of the newspaper Chechenskaya Pravda with the assistance of the Association of the Georgian Free Press.[7]

This pro-Chechen attitude of the Georgian administration infuriated Russia and Moscow continuously accused Tbilisi of not doing enough to bolster security along the Georgian-Russian frontier. The Russian authorities claimed that Pankisi Gorge had become a safe haven for the Chechen militants who not only launched strikes against Russian military forces in Chechnya but also terrorized the local population by systematic kidnappings for ransom, heroin-trafficking and weapons smuggling.

Secretary Sergei Ivanov of the Russian Security Council and his Georgian counterpart Nugzar Sadjaya met in June 2000 and signed a security agreement to straighten out the disagreements between the two countries. With this accord, the two sides pledged cooperation in the struggle against terrorism, organized crime, arms and drugs trafficking.[8] However, the concord did not lead to a major breakthrough in bilateral relations and Sergey Yastrzhembsky, the aide to President Putin, announced in November 2000 that as of 5 December 2000, Russia would impose a visa control regime on the border between Russia and Georgia since the Tbilisi government could not prevent the infiltration of Chechen militants into Russian territory.[9]

Russia kept reproaching Georgia on account of Tbilisi's accommodating policies towards the Chechens in Pankisi Gorge and from time to time commit acts that would further blight the already frail relationship. Planes coming from Russian airspace bombed the Valley in November 2001.[10] Despite the of January 2002 agreement between Russian Security Council Secretary Vladimir Rushailo and his Georgian colleague

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7 Justin Burke, "Chechens Begin Publishing Newspaper in Georgia", *RFE/RL*, 28 January 2000 and Jonathan Hooper, "Russia Demands Closure of Chechen Representation in Georgia", *RFE/RL*, 06 March 2000.

8 Justin Burke, "Georgia, Russia Sign Security Agreement", *RFE/RL*, 16 June 2000.

9 Pavel K. Baev, "Russia's Policies in the Southern Caucasus and the Caspian Area", *European Security,* Vol. 10, No. 2 (Summer 2001), p. 101. The breakaway regions of Georgia, Abkhazia and South Ossetia, were exempted from the new visa regime.

10 Khatuna Giorgadze, "Russia: Regional Partner or Aggressor?", *The Review of International Affairs*, Vol. 2, No. 1 (Autumn 2002), p. 74.

Nugzar Sadjaya on the launch of a joint operation to neutralize criminals and Islamic extremists in the Pankisi Gorge,[11] in the summer of 2002, Russia declared that it would send troops to the region unless Georgia took preventive measures against the Chechen fighters. A Georgian military force of 1000 soldiers was deployed to the area in late August after four military aircraft, presumed to be Russian, bombed the Pankisi Gorge and killed a woman and a child.[12] This Georgian move did not quiet down the simmering dispute; in September 2002, Putin argued that in line with the self-defence principle of the UN Charter, Russia retained the right to attack Georgia if the latter failed to secure the Russian-Georgian border. After this ultimatum, the two sides called for a truce and Georgia arrested a number of Chechen militants and extradited some to Russia.[13]

The arrival of American military instructors in Georgia at the end of February 2002 to train nearly 2000 Georgian special forces within the framework of the Train and Equip program became another point of concern for Russia. Although the Georgian officials underlined that the US advisors were training Georgian soldiers outside Tbilisi and had played no role in the Pankisi Gorge operations,[14] this was hardly any assurance for the Russian government watching solicitously the increasing American sway in its claimed zone of influence. Tbilisi's bilateral security pact, that was ratified by the Georgian parliament in late March 2003 and with which the US military personnel were permitted visa-free entry and exit from the country, to carry weapons and to deploy military hardware without impediments on Georgian territory, was another development that led to uneasiness among Russian security circles.[15]

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[11] Daniel Sershen, "Georgia, Russia Agree to Launch Joint Operation in Pankisi", *RFE/RL*, 31 January 2002.

[12] Abe Rein, "Russia Denies Bombing Pankisi, While Georgia Claims Two Killed, *RFE/RL*, 23 August 2002 and Esra Hatipoğlu, "After Empire: Georgia-Russia Relations and the Prospects for Stability in the South Caucasus", *Turkish Review of Eurasian Studies* (April 2004), p. 184.

[13] Kenneth Yalowitz and Svante E. Cornell, "The Critical but Perilous Caucasus", *ORBIS*, Vol. 48, No. 1 (Winter 2004), p. 112.

[14] Vitaly Naumkin, "Russian Policy in the South Caucasus", *The Quarterly Journal*, No. 3 (September 2002), p. 34, Mark Berniker, "Georgia Faces Harsh Questions As American Training Begins", *Eurasia Insight*, 28 May 2002 and "Pankisi Gorge in Crossfire", *The Washington Times*, 05 October 2002.

[15] Aleksandr Chigorin, "Russian-Georgian Relations", *International Affairs (Moscow)* Vol. 49, No. 4 (August 2003), p. 130.

The Russian military bases on Georgian soil were other causes of friction between the two countries. Russian leader Yeltsin and Georgian leader Shevardnadze had signed a joint statement at the OSCE summit in Istanbul in November 1999 which affirmed that Russia would close down the Gudauta and Vaziani bases by 1 July 2001 while the shut-down date of the Batumi and Akhalkalaki military facilities would be decided in future negotiations.[16] Although the Akhalkalaki, Batumi and Vaziani military bases were dismantled, only weaponry and military machinery restricted by the CFE Treaty were removed from the Gudauta base.[17]

Georgian-Russian relations received a heavy blow on 27 September 2006 when four Russian military officers, along with eleven Georgian citizens, were arrested in Tbilisi on charges of espionage. Georgian Interior Minister Vano Merabishvili announced on the same day that the detained were apprehended for obtaining information regarding Georgia's defensive capabilities, strategies for integration with NATO, Georgian ports, railways and opposition political parties.[18]

Russia responded the next day, 28 September 2006, by recalling Wyacheslav Kovalenko, its ambassador to Georgia, and starting a partial evacuation of diplomatic representatives and their families from Georgia on the grounds of a growing threat to their security. The Russian embassy in Tbilisi also issued a press release on the same day stating that its consulate would not accept visa applications from Georgian citizens for entry into Russia.[19]

The apprehended Russian officers were set free on 2 October and were handed over to OSCE officials in Tbilisi. However, this act did not

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16 Olga Oliker and Thomas S. Szayna, *Faultlines of Conflict in Central Asia and the South Caucasus*, Santa Monica, CA, RAND, 2003, p. 37 and Hatipoğlu, "After Empire: Georgia-Russia Relations and the Prospects for Stability in the South Caucasus", p. 176.

17 Resolution of the Parliament of Georgia on the Military Bases of the Russian Federation Located on the Territory of Georgia, 10 March 2005, available at < http://www.georgiaemb.org/DisplayMedia.asp?id=379 > [12 Aug 2008] and "12th Russian Military Base Officially Transferred to Georgia", Georgia Ministry of Defence, News Archive, 13 November 2007, available at: <http://www.mod.gov.ge/?l=E&m=11&sm=0&id=785 > [03 January 2009].

18 Diana Petriashvili, "Russia Recalls Ambassador to Georgia, Plans Evacuation", *Eurasia Insight*, 28 September 2006.

19 Ibid.

appease Moscow, as within hours of the group's release, the Russian Ministry of Transportation announced that it had suspended all air, railway, road and maritime transport as well as postal communications between Russia and Georgia.[20] Kovalenko returned to Tbilisi on 23 January 2007, after a four-month hiatus; Russia resumed air traffic between Moscow and Tbilisi in March 2008 and the postal services between the countries were reinstated in April 2008.[21]

In addition to the communications and transport embargo, Russia took extra measures to chastise the Georgian government. Immigration controls were tightened and raids were made on Georgian-owned businesses. Moreover, Moscow courts ordered the deportation of nearly 700 Georgians for immigration violations.[22]

Russian-Georgian relations reached their lowest ebb in the summer of 2008 when Georgia commenced a military offensive on 7 August to reassert its authority in South Ossetia. The operation sparked an adamant and livid retort from Russia; Moscow went to bat for the separatist province with troops, naval force, military aircraft and tanks.[23] After a five-day war in which Russia not only expelled the Georgian forces from Abkhazia and South Ossetia but also invaded Georgia proper, Georgian government declared a unilateral ceasefire. With the stepping in of French President Nicolas Sarkozy, Georgia and Russia agreed on an armistice on 12 August 2008 and Russia began to pull out of its military units from Georgian territory.[24]

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[20] Vladimir Socor, "Russia's Economic and Political Warfare Failing to Subdue Georgia", *Eurasia Daily Monitor,* Vol. 3, No. 186, (10 October 2006) and Diana Petriashvili, "Georgians Express Outrage at Russian Sanctions", *Eurasia Insight*, 10 October 2006.

[21] Molly Corso, "Georgia: Despite Russian Ambassador's Return, No Fresh Start for Ties with Moscow", *Eurasia Insight*, 23 January 2007; "Georgian President Meets with Newly Returned Russian Ambassador", *RFE/RL*, 01 February 2007; Nino Patsuria, "With Flights to Moscow, Georgia Hopes Trade Ties Will Again Take Off", *Business and Economics*, 25 March 2008; "Russia Reopens Postal Links with Georgia After 2.5 Year Freeze", *RIA Novosti*, 21 April 2008.

[22] "Georgian President Protests Russian Deportation of Georgians", *RFE/RL*, 10 October 2006 and "Georgia: Hundreds Left Stranded after Deportations from Russia", *Eurasia Insight*, 21 October 2006.

[23] Oksana Antonenko, "A War with No Winners", *Survival*, Vol. 5, No. 5 (October 2008), p. 26.

[24] Chad Nagle, "Whither Transcaucasia", *Turkish Policy Quarterly,* Vol. 7, No. 2 (Summer 2008), p. 74.

On 14 August 2008, the Parliament of Georgia adopted resolutions terminating the country's membership in the CIS.[25] This was followed by Russia's recognition of the independence of Abkhazia and South Ossetia on 26 August 2008 and establishment of diplomatic relations with these two entities on 9 September 2008.[26] Although Russia imputed its decision to hostile and irresponsible acts of the Georgian leadership to the peoples of Abkhazia and South Ossetia, it had already entered into a process of de-facto recognition of Abkhazia and South Ossetia in reaction to Georgia's push to receive a NATO Membership Action Plan and international acknowledgement of the unilateral declaration of independence of Kosovo. On 16 April 2008, Russian President signed a decree which envisaged direct official relations between Russian government bodies in North Caucasus and the secessionist authorities in Abkhazia and South Ossetia. The edict recognized the legal acts issued by Abkhazian and South Ossetian officials and entities registered under Abkhaz and South Ossetian laws. The statute also called on Russian authorities to provide legal assistance on matters of civil and criminal law directly to Abkhazian and South Ossetian executives and residents.[27] It can be said that Georgia's August 2008 military incursion to South Ossetia did not induce, but quickened, Russia's decision to recognize the new entities.

Despite the periodic disruption in gas supply during the winter season, cut-offs and price hikes,[28] Russia held ground in Georgia by preserving its position as the country's chief energy provider. Moscow also captured the

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25 "Statement of the Ministry of Foreign Affairs of Georgia on Georgia's Withdrawal from CIS", Ministry of Foreign Affairs of Georgia, Tbilisi, 18 August 2008, available at < http://www.mfa.gov.ge/index.php?lang_id=ENG&sec_id=36&info_id=7526> [03 January 2009].

26 "Statement by President of Russia Dmitry Medevedev", President of Russia, Statement on Major Issues, 26 August 2008., available at < http://www.kremlin.ru/eng/speeches/2008/08/26/1543_type82912_205752.shtml> [03 January 2009].

27 Molly Corso, "Georgia Holds Steady As Moscow Inches Closer to Abkhazia, South Ossetia", *Eurasia Insight*, 17 April 2008; Vladimir Socor, "Russia Moves Forward Open Annexation of Abkhazia, South Ossetia", *Eurasia Daily Monitor,* Vol. 5, No. 74, (18 April 2008); Oktay F. Tanrısever, "Gürcistan'ın Güney Osetya'daki Askeri Operasyonu ve Rusya'nın Tepkisi", *ASAM*, 12 August 2008.

28 See "Russian Itera Reduced Gas Supply to Georgia Without Specifying the Reasons", *Caspian News Agency*, 04 April 2003; "Blasts Cut Russian Gas Flow to Georgia, Armenia", *Los Angeles Times*, 23 January 2006;"Georgia Anticipates Sharp Rise in Price of Russian Gas", *RFE/RL*, 03 November 2006.

energy infrastructure of Tbilisi by acquiring the controlling stakes in gas and power companies in Georgia. In October 2001, the Russian company Itera became owner of Sakgazi Georgian gas distributing company by buying a 50 percent stake in the firm that was represented by the Channel International Company.[29] Itera and the Georgian government signed a protocol on 16 August 2002, under which Itera obtained the majority of shares of Tbilgazi Company, that distributed gas in Tbilisi, and the Azoti chemical factory in the town of Rustavi.[30]

On 1 July 2003, the Georgian government and Gazprom signed a memorandum on strategic cooperation for twenty-five years for the supply of Russian natural gas to Georgian customers in large amounts as well as the upgrade of the current pipeline system in Georgia.[31] RAO UES publicized on 6 August 2003 its purchase of a 75 percent share in Georgia's AES-Telasi joint venture from AES Silk Road, a subsidiary of the American AES Corporation.[32] On December 31, 2008, the RAO UES Chairman of the Management Board, Yevgeny Dod, and the Georgian Energy Minister Aleko Khetaguri signed a Memorandum of Understanding for the joint execution of the Inguri hydroelectric power plant which was located between Georgia proper and the breakaway region of Abkhazia.[33] Russian companies also got their hands on the financial sector of Georgia; in January 2005, Russia's state-controlled Vneshtorgbank bought 51 percent of the shares of the United Georgian Bank, one of the three leading banks in Georgia.[34]

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[29] "ITERA Became Owner of Sakgazi Georgian Gas Distributing Company", *Caspian News Agency*, 04 October 2001.

[30] Revaz Bakhtadze, "Russian Energy Giant Takes over Georgian Gas Distribution System: One More Tool of Pressure Goes into Russia's Hands", *Civil Georgia*, 16 August 2002.

[31] Ivars Indans, "Relations of Russia and Georgia: Developments and Future Prospects", *Baltic Security and Defence Review,* Vol. 9 (2007), p. 137.

[32] Zeyno Baran, "Deals Give Russian Companies Influence over Georgia's Energy Infrastructure", *Business and Economics*, 18 August 2003.

[33] "Inter RAO UES Signs a Memorandum on Effective Operation of Inguri Hydroelectric Power Plant", Company News, 31 December 2008, available at < http://www.interrao.ru/eng/news/company/212/> [03 January 2009].

[34] Zaal Anjaparidze, "Russia Claims Strategic Victory in Georgian Privatization Round", *Eurasia Daily Monitor,* Vol. 2, No. 22 (31 January 2005) and Vladimer Papava, "The Political Economy of Georgia's Rose Revolution", *ORBIS*, Vol. 50, No. 4 (Autumn 2006), p. 665.

Bilateral trade between Russia and Georgia suffered to a great degree as a result of the sanctions imposed by the Russian authorities on the import of Georgian products. In December 2005, Russia banned the import of all Georgian farming products due to violations of phytosanitary norms. In March 2006, the dispatch of Georgian wines to Russia was prohibited on the grounds that they contained pesticides and heavy metals, and finally, the restrictions were extended to Georgian Borjomi and Nabeghlavi mineral waters in April 2006.[35] In response to the Russian defense which argued that the Georgian goods were not in compliance with the standards of sanitation and quality, the Georgian side responded that Russia was castigating the country because of its opposition to Moscow's bid to join the World Trade Organization.[36]

Russia and Azerbaijan: A Balanced Intercourse

Russia's relations with Azerbaijan maintained a steady course during the Putin era. Azerbaijan followed a less enthusiastic line, compared to Georgia, pertaining to its membership in NATO and curbed its support to the Chechen fighters to a great extent. Energy cooperation constituted the epicenter of the association between Baku and Moscow whereas military collaboration was of lesser dimensions. The two countries also managed to straighten out the kinks with regard to two controversial issues: the status of the Gabala station and the delimitation of the Caspian Sea.

Azerbaijan, like Georgia, was sympathetic to the Chechen cause. Small groups of Chechens had fought in the ranks of the Azerbaijani army during the course of the Nagorno-Karabakh conflict and this had strengthened the bond between the Chechen and Azerbaijani people. Some 100 Chechens, injured in Russian artillery attacks during the Second Russian-Chechen War, were treated in hospitals in Azerbaijan under the terms of a 1997 agreement between the Azerbaijani and Chechen health authorities.[37] In July 2000, prominent Chechen leader Shamil Basayev made a public

[35] "Relations between Georgia and Russia", Ministry of Foreign Affairs of Georgia, available at < http://www.mfa.gov.ge/index.php?sec_id=420&lang_id=ENG> [03 January 2009].
[36] Indans, p.133.
[37] "Chechens Receiving Medical Treatment in Azerbaijan", *Interfax*, 06 January 2000.

appearance on a private television station in Baku.[38] Azerbaijan also hosted an independent school attended by the children of Chechen refugees who were denied access to the state-run school system due to the lack of proper refugee documentation, and a cultural center that served as a de facto representative office of the separatist leadership under Aslan Maskhadov.

The bombing of Kımır village by a Russian combat plane,[39] the participation of Russian troops in military manoeuvres with Armenian forces along Armenia's border with Azerbaijan, and the imposition by the Russian government of visa restrictions on Azerbaijani citizens like the Georgians changed the 'prevailing wind' in favour of Russia. Azerbaijan prosecuted several suspected Chechen rebels and the others were extradited to Russia. Moscow and Baku signed agreements on preventing terrorism and deepening cooperation to hinder the smuggling of arms and narcotics across their shared border during Russian Interior Minister Vladimir Rushail's visit to Azerbaijan on 3-4 February 2002.[40] Moreover, in October 2002, the Azerbaijani authorities sealed off the Chechen School and the cultural center, thus depriving Chechens of significant education and propaganda tools.[41]

The status of Gabala Radar Station, another thorny matter between Azerbaijan and Russia, was sorted out on 24 January 2002 during Azerbaijani President Heydar Aliyev's official visit to Moscow.[42] The radar facility was important for Russia since it had the capacity to detect missile launches from as far away as the Indian Ocean. In addition, the radar's surveillance area covered the entire Middle East, and thus gave the Russian Space Forces the opportunity to track the military activities of the regional states. This agreement acknowledged that the Gabala Radar Station was the property of Azerbaijan but granted Russia a ten-year lease of the facility.[43]

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38 Hikmet Hadjy-zadeh, "The Chechen War Echoes in Azerbaijan", *Eurasia Insight*, 24 August 2000.

39 Okan Yeşilot, "Azerbaycan'daki Çeçen Mülteciler ve Rusya ile İlişkilere Yansımaları", in Okan Yeşilot, *Değişen Dünya Düzeninde Kafkasya*, Istanbul, Kitabevi, 2005, p. 197.

40 "Russia, Azerbaijan Condemn Terrorism, Separatism", *Turan News Agency* , 07 February 2002.

41 Daan van der Schriek, "Moscow Hostage Crisis Encourages Close Russian-Azerbaijani Relations", *Eurasia Insight*, 30 October 2002.

42 Sinan Oğan, "Gebele Radar İstasyonu: Biri Bizi Gözetliyor", *Türksam*, 01 June 2007, available at < http://www.turksam.org/tr/yazdir1286.html> [16 Aug 2008].

43 "President Vladimir Putin and President Heydar Aliyev Signed an Agreement on the Status and Principles and Terms of Using the Daryal-type Radar in Gabala", President of

In September 2002, Azerbaijan and Russia made a salient stride for resolution of the Caspian Sea issue. The two states agreed on an accord towards the delineation of the boundary between their nations' sections of the Caspian Sea.[44] In October 2003, with the participation of Kazakhstan, a trilateral agreement was signed between the three countries dividing the northern sixty-four percent of the Caspian Sea into three unequal parts according to a median line principle, allocating Kazakhstan twenty-seven percent, Russia nineteen percent and Azerbaijan eighteen percent.[45]

Compared to the other two South Caucasus states, Azerbaijan was less dependent on Russian energy supplies thanks to its oil and natural gas reserves. Even so, commencing from 2000 until December 2006, because of severe weather conditions and shortages of electricity in Baku and the other regions of the country, the Azerbaijani government bought natural gas and electricity from Gazprom unremittingly until the company declared that it would increase gas prices for Azerbaijan in 2007 from $110 to $230 per 1,000 cubic meters. Gazprom also would cut the volume of supplies it exported to Azerbaijan from 4.5 billion cubic meters to 1.5 billion cubic meters.[46] The price hike was seen by the Azerbaijani government as blackmail to compel the country to stop gas supplies to Georgia and the Azeri officials evinced that they desisted from importing gas at all from Russia in 2007 at the proposed price.[47]

Despite the row over the rise in gas prices, Russia did not lose its interest in Azerbaijan. A Gazprom delegation visited Azerbaijan on 2 June 2008 and the company's CEO, Alexei Miller, who met with Azerbaijani President Ilham Aliyev, made a proposal to buy Azerbaijani gas at market prices with long term contracts.[48] This generous offer, if Azerbaijan takes it

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Russia, News, The Kremlin, Moscow, 25 January 2002, available at < http://www.kremlin.ru/eng/text/news/2002/01/146984.shtml> [19 May 2009].

44 "Russia, Azerbaijan Signs Caspian Sea Deal", *The Russia Journal*, 23 September 2002.

45 Jeronim Perovic, "From Disengagement to Active Economic Competition: Russia's Return to the South Caucasus and Central Asia", *Demokratizatsiya* (Winter 2005), p. 7.

46 Rovshan Ismayilov, "Baku Banks on Independent Energy Policy", *Business and Economics*, 13 December 2006.

47 Sergei Blagov, "Russian Ties with Azerbaijan Reach New Lows", *Eurasia Insight*, 25 January 2007.

48 "Gazprom Ready to Buy Azerbaijani Gas at Market Prices-Envoy", *RIA Novosti*, 04 June 2008.

up, will definitely affect the completion of prospective Western-backed pipeline projects such as the Nabucco, Poseidon or Trans-Asia pipelines.[49]

The military collaboration between Azerbaijan and Russia remained of limited dimensions. Russian Security Council Secretary Vladimir Rushailo and his Azerbaijani equivalent Ramiz Mekhtiev signed an accord on 20 February 2003, during the former's visit to Baku, which anticipated cooperation between their respective agencies on the issues of crime, drug trafficking and international terrorism.[50] On 27 February 2003, visiting Russian Defense Minister Sergei Ivanov signed a cooperation agreement with his Azeri counterpart which paved the way for Azerbaijan to supply other countries with weapons and spare parts from Russia.[51]

Russia and Armenia: A Dependent Liaison

The incessant scuffling with Georgia, plus Azerbaijan's offish demeanour, solidified the indispensability of Armenia in the eyes of the Russian policy makers. In the military arena, Russia continued to arm Armenia with heavy weapons whereas in the economic field Russia conducted a policy of asset seizure in strategic sectors of the Armenian state through clever and deft exploitation of that country's dependence on Russian natural resources. The Russian backing for Armenia was vital to the survival of this state as it had knotty relations with two of its neighbours, specifically, Azerbaijan and Turkey. Azerbaijan had closed its border gates with Armenia after the latter's occupation of nearly twenty percent of Azeri territory along with Nagorno-Karabakh in the early 1990s. Turkey in 1993, in solidarity with Azerbaijan, also sealed off its border with Armenia. Although the Armenian leadership continuously stated that the Armenian-Turkish relations must not be predicated on the resolution of the Nagorno-Karabakh conflict,[52] in addition to the continuation of stalemate over Nagorno-Karabakh, the insistence of Armenian government to seek international recognition of the

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[49] Amanda Akçakoca, "Azerbaijan: The Cork in the Caspian Bottle", *Today's Zaman*, 03 September 2008.

[50] Abe Rein, "Russian Security Council Secretary Visits Azerbaijan", *RFE/RL*, 21 February 2003.

[51] "Azerbaijan, Russia Sign Military Cooperation Agreement", *Turan*, 28 February 2003.

[52] Robert Kocharian, "Russia's Important Role in Regional Processes", *International Affairs (Moscow),* Vol. 49, No. 2 (April 2003), p. 107.

so-called genocide eschewed Turkey from reaching a rapprochement with Armenia.

It can be said that Russia's already preponderant status in Armenia's security establishment and economic structure waxed and deepened more as a result of the military cooperation agreements signed between the two states and Russia's take-over of Armenia's state-controlled companies in energy, telecommunications, transportation, finance and mining sectors of Armenia in return for relief of the latter's swelling debt.

On September 14, 2001, at the time of Russian Defense Minister Sergey Ivanov's visit to Armenia, he and his counterpart Serzh Sargsyan signed two intergovernmental documents. The first agreement was about sending Russian military advisors and specialists to Armenia on a business trip and the other document regulated the exchange of lands and assured favourable conditions for Russians serving at the Russian bases in Armenia.[53] Furthermore, with the second agreement the 102nd Russian military base in Armenia was given new territory.

On 3 October 2001, in the course of Russian Chief of General Staff Anatoly Kvashnin's visit to Yerevan, a protocol was signed concerning the furnishing of the 102nd military base with Russian anti-aircraft systems and execution of joint air defence exercises.[54] The two countries entered into two other military cooperation agreements on the joint usage of military infrastructure and information exchange during Armenian Defence Minister Serzh Sargsyan's visit to Russia in October 2002.[55] In May 2002, Armenia along with Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan agreed to set up a collective security organization[56] which meant that the bilateral military relationship between the two countries acquired a multilateral security aspect as well.

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[53] "Armenian, Russian Defense Ministers Signed Two Intergovernmental Agreements", *Caspian News Agency* , 14 September 2001.

[54] Nazmi Gül and Gökçen Ekici, "Stratejik Ortaklar Arasında Bir Sorun mu Var? Putin'in Ermenistan Ziyareti ve Moskova-Erivan İlişkileri", *Stratejik Analiz,* Vol.2, No. 19 (November 2001), p. 36.

[55] Alena Kim, "Armenia, Russia Reaffirm Commitment to Military Cooperation", *RFE/RL* (02 October 2002).

[56] Fraser Cameron and Jarek M. Domanski, "Russian Foreign Policy with Special Reference to its Western Neighbours", *EPC Issue Paper*, No. 37 (13 July 2005), p. 14.

At the time of Armenian President Robert Kocharian's 16-18 January 2003 visit to Russia, the two sides signed a military-technical cooperation agreement.[57] During Russian Defence Minister Sergei Ivanov's visit to Yerevan on 11 November 2003, he and his Armenian interlocutor Serzh Sargsyan concurred on a military cooperation agreement with which the Russian military facilities at Gyumri were merged into one base in keeping with Russian Defence Ministry requirements. Ivanov also apprised that Russia would continue to supply Armenia with weaponry and military hardware.[58] Moscow also transferred a great deal of arms and military equipment from its bases in Batumi and Akhalkali in Georgia to Gyumri during the course of the evacuation of these military facilities.[59]

In the economic area, Armenia had to cede some of its strategic assets to Russia in return for writing off its lingering debts after encountering cut-offs in gas supplies. In September 2002, Armenia's largest cement factory was handed over to the Russian natural gas company Itera in payment for the country's $ 10 million debt for past gas deliveries.[60] On 04 December 2002, the Armenian Parliament ratified the Assets-For-Debt Deal that was signed on 17 July 2002. According to the agreement, nearly $100 million of the outstanding Armenian debt to Russia would be eliminated by relinquishing control of five state-run Armenian enterprises to Russia. These corporations included the Hrazdan thermal power plant that produced about 40 percent of power in Armenia, the Mars Electronics Company which manufactured signaling devices and the three research institutes that used to work for the Soviet military-industrial complex.[61]

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[57] Sergei Blagov, "Kocharian's Moscow Visit Underscores Strengthening Armenian-Russian Security Cooperation", *Eurasia Insight*, 21 January 2003.

[58] Timur Onica, "Armenia, Russia Sign Further Military Cooperation Agreements", *RFE/RL*, 13 November 2003;Kim Iskyan, "Big Bad Pariah: Armenia in Russia's Embrace", *Moscow Times*, 24 March 2004;Ilan Berman, "The New Battleground: Central Asia and the Caucasus", *The Washington Quarterly*, Vol. 28, No. 1 (Winter 2004-2005), p. 66.

[59] Samvel Matirosyan and Alman Mir Ismail, "Armenia and Azerbaijan Differ over Russian Base Pull-out", *Eurasia Insight*, 28 June 2005.

[60] Emil Danielyan, "Russia Tightens Grip on Armenia with Debt Agreements", *Eurasianet,* 07 May 2003.

[61] Aleksandr Chepurin, "On Yerevan's Foreign Policy", *International Affairs (Moscow)* Vol. 50, No.2 (April 2004), p. 117 and Andrei P. Tsygankov, "If Not by Tanks, then by Banks? The Role of Soft Power in Putin's Foreign Policy", *Euro-Asia Studies,* Vol. 58, No. 7 (November 2006), p. 1091.

On 5 February 2003, Russian Industry and Science Minister Ilya Klebanov and Armenian Minister of Defense Serzh Sargsyan agreed on an accord under which financial management of the Medzamor nuclear power plant was passed to Russia's UES in exchange for paying off Armenia's $40 million debt to Russian nuclear fuel suppliers.[62] In August 2003, Armenia signed another agreement with UES to turn over the Sevan-Razdansky hydropower plant for the purpose of wiping out the debts owed for deliveries of nuclear fuel for the Armyanskaya nuclear station.[63]

In September 2005, the Armenian government gave its consent for the sale of Armenia's national power grid by British Midland Resources Holding to Interenergo, a subsidiary of UES.[64] In April 2006, Armenian government reached a twenty-five year gas agreement with Russia under which a joint Armenian-Russian firm, ArmRosGaz, took over the fifth unit of the Hrazdan thermal power plant and unified it with the four old blocs, which were already controlled by UES under a single management system. ArmRosGaz also seized the control of the Armenian portion of the Iran-Armenian gas pipeline.[65] The deal came soon after Gazprom's announcement that it would increase the price of gas sold to Armenia from $56 per 1000 cubic meters to $110 per 1000 cubic meters.[66] With the new contract, Armenia accepted the new price but won a concession that there would not be any further increase of the gas price until 1 January 2009.[67]

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62 Sinan Ogan, "Türkiye ile Rusya Arasında Ermenistan ve 90. Yıl Tartışmaları", in Okan Yeşilot, *Değişen Dünya Düzeninde Kafkasya*, İstanbul, Kitabevi, 2005, p. 110 and Sedat Laçiner, *Türkler ve Ermeniler: Bir Uluslararası İlişkiler Çalışması*, Ankara, USAK Yayınları, 2005, p. 225.

63 Stanislav Secrieru, "Russia's Foreign Policy Under Putin: CIS Project Renewed", *UNISCI Discussion Papers,* (January 2006), p. 299.

64 "Armenian Government Approves Sale of National Power Grid", *RFE/RL*, 26 September 2005.

65 "Armenia Cedes Power Plant in Exchange for Cheap Russian Gas", *RFE/RL*, 06 April 2006, Vladimir Socor, "Armenia's Giveaways to Russia: From Property-for-Debt to Property-for-Gas", *Eurasia Daily Monitor,* Vol. 3, No. 76, (19 April 2006) and Mark Kramer, "Russian Policy Toward the Commonwealth of Independent States: Recent Trends and Future Prospects", *Problems of Post-Communism*, Vol. 55, No. 6 (November-December 2008), p. 11.

66 Haroutiun Khachatrian, "Gas Prices Prompt Armenia to Debate Alliance with Russia", *Business and Economics* , 30 January 2006.

67 Vladimir Socor, "Russia Cements Control of Armenia's Energy System", *Eurasia Daily Monitor,* Vol. 3, No. 204, (03 November 2006).

On 14 November 2006, the Armenian government's Public Service Regulatory Commission gave its approval for the acquisition, by the Russian mobile phone operator VimpelCom, of the 90 percent stake of the Armenian Telephone Company (ArmenTel) which was owned by Greece's Hellenic Telecomminication Organization (OTE).[68] During President Kocharian's visit to Moscow in November 2006, Russia's Comstar Telesystems declared that it had obtained 75 percent of the shares of Armenia's second largest telecommunications group CallNet and its subsidiary, the internet service provider, CorNet.[69] Finally, Russian telecommunications operator MTS purchased Armenia's largest mobile phone network, VivaCell, from a Lebanese company in September 2007.[70]

Armavia Airlines, that belonged to Russia's Sibir Airlines, was granted the bulk of the flights of the Armenian Airlines after agreeing to assume $25 million debt of the company.[71] A thirty-year concession agreement was signed on 13 February 2008 by Vladimir Yakunin, President of Russian Railways, and Andranik Manukyan, Armenian Minister of Transport and Communication, through which Russian South Caucasus Railways obtained the right to manage Armenia's existing railway network.[72]

Russian Ingosstrakh Company purchased 75 percent of the shares of Armenian insurance company Efes in 2003.[73] In March 2004,

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68 "Russian Operator Acquires Armenian Telecom Network", *Noyan Tapan*, 15 November 2006. ArmenTel's shares were transferred to VimpelCom to offset Greece's debts for the Russian gas. See "Armenian Telecom Giant Set to Be Handed over to Russia", *BBC News* (30 September 2003).

69 Vladimir Socor, "Armenia Selling More Infrastructure Industry to Russia", *Eurasia Daily Monitor,* Vol. 3, No. 206, (07 November 2006).

70 Emil Danielyan, "Soaring Trade Boost Russian-Armenian Economic Ties", *Eurasia Daily Monitor,* Vol. 4, No. 21 (30 October 2007).

71 Emil Danielyan, "Russia Tightens Grip on Armenia with Debt Agreements", *Business and Economics*, 07 May 2003).

72 "Russian Railways Awarded Concession to Manage Armenian Railways", News, Russian Railways , 14 February 2008), available at
< http://www.eng.rzd.ru/wps/portal/rzdeng?STRUCTURE_ID=4082>
[04 January 2009].

73 "Ingo-Armenia Insurance Company Marks its 10th Anniversary", *ArmInfo*, 30 October 2007 and Ömer Kocaman, "Rusya'nın Ermenistan Politikası: Tek Boyutlu Siyasetten Çok Boyutlu Siyasete Doğru", *ASAM*, 18 February 2006.

Vneshtorgbank, Russia's state-dominated bank, acquired a 70 percent stake in the Armenian Savings Bank (Armsberbank).[74]

On 16 April 2004, Armenia's biggest chemical factory, Nairit, that produced chloroprene rubber, was sold to the Volgaburmash Company, based in the Russian city of Samarra.[75] In September 2007, one of Armenia's biggest mining concerns, the Ararat Gold Recovery Company, was purchased by Madneuli Resources, a mining conglomerate, controlled by Industrial Investors, a group of Russian financiers headed by Sergei Generalov, a former Russian Energy Minister.[76] A deal was clinched during the visit of Russian Prime Minister Viktor Zubkov and the head of the Russian Federal Atomic Agency (Rosatom), Sergei Kiriyenko to Armenia on 6 February 2008, that foresaw the creation of a joint venture with Russian Atomredmetzoloto, a uranium mining subsidiary of Rosatom and the Armenian government, to develop uranium reserves in Armenia which were estimated at 30,000-60,000 tons.[77]

Conclusion

With Vladimir Putin's undertaking of the post of presidency in 2000, inducing the economic interests of the Russian state along with the objective of sustaining the military presence came into prominence in Russian foreign policy-making with respect to the South Caucasus. The secessionist movement in Chechnya was accepted as the major internal threat for the Russian Federation as it had the potential to trigger a chain reaction within the country which could ultimately lead to its dismemberment. The problem of Chechnya also became decisive in Russia's dealings with Georgia and Azerbaijan as Moscow exerted intense pressure on Baku and Tbilisi to cut off their ties with the Chechen militants. Armenia, on the other hand, continued to be the most loyal ally of Russia in the region and conceded to the seizure of its strategic assets by Russian state conglomerates in exchange for inclusion under Moscow's security umbrella against Azerbaijan and Turkey.

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74 "Russia's Vneshtorgbank Takes Over Armenian Bank", *ArmInfo*, 24 March 2004.

75 "Russians Take Over Armenian Chemical Plant", *Caucasus Reporting Service*, 27 May 2004.

76 Kieran Cooke, "Armenia's Controversial Gold Rush", *BBC News*, 09 January 2008.

77 Sergei Blagov, "Armenia Seeks Stronger Ties with Russia", *Eurasia Insight*, 27 March 2008.