

For debate in the Standing Committee — see Rule 15 of the Rules of Procedure

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## The establishment of a Stability Pact for the South Caucasus

Report  
Political Affairs Committee  
Rapporteur: Mr Adrian Severin, Romania, Socialist Group

### *Summary*

The Assembly believes that the prospect for a regional strategy of co-operation and integration in the South Caucasus defined by all those concerned and facilitated by the international community and carried out in parallel with the political process aimed at the settlement of the conflict in the region would contribute largely to the successful outcome.

The Assembly also notes that despite certain reservations all parties concerned admit the usefulness of such a concept if the appropriate conditions are created.

Therefore the Assembly calls on all stakeholders to launch a process of reflection on the idea of establishing a Stability Pact for the South Caucasus, and it also resolves to advance its own reflection on this subject.

**A. Draft resolution**

1. The Parliamentary Assembly recalls its long-standing concern for democratic stability, security and well-being in the South Caucasus region. Within this frame it has followed closely the situation in the three Caucasus republics, Armenia, Azerbaijan and Georgia, and largely contributed, in its areas of excellence, namely democracy, rule of law and human rights, to the democratic transformation of the region.
2. The Assembly reiterates its concern that a political solution of the separatist conflicts in the region has not been achieved so far. The political, social and economic progress of the Caucasian countries, as well as the regional co-operation looks to be hostage of those conflicts.
3. At the same time, while not wishing to interfere with the negotiation process among the parties in those conflicts, the Assembly strongly believes that it is its duty and it has the capacity to seek to create a positive climate around the negotiations thus facilitating their successful outcome. Such a climate could emerge if in parallel to the negotiations and with the separate efforts from each of the Caucasian country to internally enhance European values, the prospect for a regional strategy of co-operation and integration is defined by all those concerned and is kept available by the international community.
4. The Assembly also recalls its support for the European Neighbourhood Policy (ENP) as outlined in its Recommendation 1724 (2005) on the ENP, and welcomes the inclusion of the three Caucasian republics into the ENP. The Council of Europe contributes in an important way to the implementation of the action plans for the countries of the region.
5. The Assembly stresses that while political settlement of the conflicts in the region (including the conflicts over Nagorno-Karabakh, Abkhazia and South Ossetia) is necessary for the further development in political, economic and social areas of each and every Caucasian country, their prosperous and secure future can not be guaranteed without a regional co-operation and integration. The co-operation between those countries as such might also create the climate of trust favourable to the conflicts` settlement or to avoiding new conflicts.
6. The Assembly strongly believes that for the Caucasian countries such a regional co-operation leading to regional integration is also necessary in order to overcome the liabilities related to the small dimensions of each of the national markets, the disparities in their natural resources and the difficult geo-political conditions circumscribed by their geographical position as transition areas for crude oil and gas, by their political neighbourhood and by the controversies linked to the different agenda of the main international players in the region. It believes therefore that the international community should contribute more actively to the creation of favourable conditions for political talks as well as for an institutionally enhanced regional co-operation after or simultaneously with the eventual success of those talks.
7. The Assembly has examined closely the concept of the Stability Pact for the South-Eastern Europe with a view to drawing from positive experiences gained and to developing a possible Stability Pact for the South Caucasus, taking into account the significant differences between these regions particularly as regards geopolitics and specific concerns.
8. The Assembly is fully aware that despite numerous similarities, between the Caucasus and the Balkans there are important differences, the most important being that:
  - 8.1. the frozen conflicts in the region which are impeding the democratic, social and economic development have not yet lead to that confrontational fatigue which makes peaceful solutions and political compromises more attractive;
  - 8.2. the Caucasian States do not have, for the moment, the prospect of EU accession;
  - 8.3. the international community was not in the position to develop that kind of presence in the region which allows for political decisions in line with the strategic needs of the regional security even if they are conflicting with the national short term agendas;
  - 8.4. the international community is more divided than the Balkans over the international status and the political future of the area.

9. It is obvious that the establishment of a Stability Pact for the South Caucasus would require the full and active support of all those concerned. The Assembly notes that the idea of a Stability Pact for the South Caucasus has not gained sufficient support from all parties concerned, in particular the three Caucasus republics, but also the European Union, Russia, Turkey and the USA. The Caucasian countries feel that the priorities are different, namely the management of the different frozen conflicts. The international players are not yet ready for promoting a common policy in the region and therefore they have more trust in the instruments they can use within their bilateral relations with each of the Caucasian states.

10. Nevertheless, the Assembly also notes that despite those reservations nobody excludes that such a concept might become useful if the appropriate conditions are created, if the substance of the Pact is clarified enough and if it responds both to the need for stability and security of the South Caucasus as a region and to the various specific interest and concerns of the countries involved (including the main international players).

11. Therefore the Assembly believes that it is necessary to:

11.1. formulate the main principles and the basic guiding ideas for a Stability Pact for the South Caucasus as a starting point for further international reflection;

11.2. propose the initiation of an International Conference on Security and Co-operation in the South Caucasus (ICSCSC) to evaluate the prospective of such a Stability Pact and to offer incentives and assistance for its eventual enhancement in the appropriate form and at the appropriate time.

12. The Assembly further believes that the above mentioned International Conference should adopt the Pact in the form of a joint strategy which would include a joint offer for Caucasian states to which international players would contribute. This joint strategy should start from the identification of common interests of all the Southern Caucasian peoples and countries, achieved with the direct participation of their legitimate representatives. Such solidarity of interests – obviously including goals as sustainable freedom, security, prosperity and dignity – once defined should allow for the elaboration of common projects aimed at achieving security through pluralist democracy and stability through sustainable development.

13. The Assembly also believes that the common projects forming the substance of the Stability Pact strategy should include measures aimed at encouraging and assisting regional integration through communication, consultation, confidence building, co-ordination and co-operation among the South Caucasian players. Within this framework, the Council of Europe should use its expertise in promoting programs concerning the inter-ethnic, inter-cultural and inter-religions respect and coexistence, as well as the establishment of Trans Caucasian civil society and political parties.

14. As long as the European Union can not offer the Caucasian countries EU membership it should offer them, together with the Council of Europe, full technical assistance and generous financial support in adopting and enhancing the EU model in the South Caucasus. Within this process, the Southern Caucasian integration strategy has to be based on the principles of subsidiarity, solidarity, transparency and accountability. At the same time, it should promote the free circulation of goods, capitals and people in the whole region.

15. The Assembly is of the opinion that the Stability Pact's mechanism should include three "Round tables" – one on security, one economy and social affairs and one on democracy and human rights – whose role should be to identify the regional priorities in conjunction with the national and local ones and to define the necessary concrete programmes to be enhance in light of those priorities in their respective field of competences. The respective programs must have as an ultimate goal the gradual establishment of a South Caucasian internal free market, a South Caucasian economic and monetary union, a South Caucasian space of security, freedom and justice (including social justice) eventually supported by a common taxation policy and a common defence identity.

16. The Assembly strongly believes that a Stability Pact for the South Caucasus should reiterate the principle of the total withdrawal of foreign military forces from the internationally recognised territory of another country and should propose a mechanism for the implementation of such a principle. The Pact should not try to identify or impose solutions to the existing frozen conflicts but it must create a favourable framework for those asked to find them, including among others the confidence building programs. In this respect, the ICSCSC could initiate a separate dialogue in an appropriate format for the negotiation of the said withdrawal of the foreign military forces under international guarantees and possibly their replacement by international peace keeping forces under the UN flag.

17. The Assembly believes that the non alignment of the South Caucasian countries to any third political and military regional alliance, other than the one they might want to establish together, would facilitate the feasibility and sustainability of the South Caucasian peace, co-operation and integration. However, this could not and should not prevent the South Caucasian countries establishing special, consolidated and advanced economic partnerships with global or regional players like the EU. Such partnerships should be coupled with the most favoured nation status granted to the countries which have contributed to putting in place the Stability Pact for the South Caucasus. Likewise the enhancement of the Stability Pact should imply adequate undertakings concerning fair and equal opportunities offered to those interested in the free transit of goods through the region.

18. Finally, the Assembly recommends that an international Fund for the Stability Pact for the South Caucasus composed of public and private donations should be established. This Fund could and should represent the most important, effective and transparent financial instrument for a coherent mobilisation and distribution of the financial resources required by the implementation of the programs and policies promoted within and by the Pact.

19. Furthermore, the Assembly resolves to pursue its efforts aimed at facilitating regional co-operation at the parliamentary level and in particular to:

19.1. continue the consultations at the parliamentary level concerning the establishment of the Stability Pact for the South Caucasus and the feasibility of an International Conference on the Security and Co-operation in the South Caucasus;

19.2. advance its own reflection on this subject;

19.3. invite its committees to step up co-operation with their counterparts in the three South Caucasian republics with a view to organising joint regional events in their field of competence;

19.4. step up adequate parliamentary assistance programmes in support of the enhancement of a possible Stability Pact for the South Caucasus to be launched at the appropriate time.

## **B. Draft recommendation**

1. Referring to its Resolution .... (2006) on the establishment of a Stability Pact for the South Caucasus, the Parliamentary Assembly reiterates the historical role of the Council of Europe in improving good governance, strengthening democracy and the rule of law, raising human rights standards and improving the protection of national minorities in Europe. The Assembly is convinced that a similar role should be played also as regards the establishment of a Stability Pact for the South Caucasus.
2. Therefore, the Parliamentary Assembly recommends that the Committee of Ministers:
  - 2.1. consider the idea of the establishment of the Stability Pact for the South Caucasus along the lines set out herein above;
  - 2.2. consider the possibility of organising an International Conference for the Security and Co-operation in the South Caucasus having as its main goal to assess the specific needs and establish the practical conditions for launching such a Stability Pact in agreement with all those concerned;
  - 2.3. invite the authorities of Armenia, Azerbaijan and Georgia to launch a serious political debate on this subject in their respective countries;
  - 2.4. invite all other member states to examine the idea;
  - 2.5. consult other international players, particularly the European Union, on the possible establishment of the Stability Pact;
  - 2.6. encourage Armenia, Azerbaijan and Georgia to establish regional co-operation irrespective of the state of work on the Stability Pact;
  - 2.7. in the absence of the Stability Pact, elaborate on the mechanism for the creation of a permanent dialogue and of an international frame for a political, economic and cultural co-operation between the countries from the South Caucasian Region, having in mind the principles and the targets stated herein above;
  - 2.8. step up the assistance programmes and activities aimed at the promotion of democracy, rule of law and protection of human rights, as well as the inter-ethnic, inter-cultural-and inter-religions respect and dialogue in the countries concerned;
  - 2.9. invite its member states to contribute to the creation of a favourable climate and conditions for regional co-operation and political talks, including the support for comprehensive programs for inter-human dialogue and confidence building measures, in order to create a framework for a solution to the frozen conflicts and the promotion of the regional co-operation and integration.

**C. Explanatory memorandum, by Mr Severin, Rapporteur**

**I. INTRODUCTION**

1. Democratic stability, security and well-being of the South Caucasus region is in the interest not only of those directly concerned but also of the countries which are in the region's neighbourhood. The Council of Europe (CoE) which assembles all South-Caucasian republics on the one hand, and almost all other European countries on the other, is particularly well placed to contribute to the process aimed at achieving these objectives.

2. The Parliamentary Assembly has been showing concern for the situation in the region since the outbreak of the armed conflicts. Several committees including the Committee on the honouring of obligations and commitments by member states of the CoE, the Committee on Legal Affairs and Human Rights, the Committee on Migration, Refugees and Population, the Cultural Committee, and in particular the Political Affairs Committee have been dealing with different aspects of the situation in the region. The most recent recommendation prepared by this Committee dates from January 2005 (Resolution 1416). Moreover, the Bureau established, in 2005, an Ad Hoc Committee on the implementation of Resolution 1416 (2005). The Ad Hoc Committee presented a report to the Bureau in January 2006<sup>1</sup>, and is planning further action aimed at contributing to the creation of the positive climate around the negotiations.

3. The inclusion of the three Caucasian republics into the European Neighbourhood Policy (ENP) has proved that the European Union, for its part after a period of moderate interest and reluctance for more engagement in the region, has opted for active involvement. This development has created a new window of opportunity for a breakthrough in the political settlement and progress on the way to stability and economic growth in the region.

4. It is obvious that the settlement of the conflicts by political means is a necessary pre-condition for development in the region. However, in anticipation of the final outcome of the peace process, the international community could contribute to the creation of the favourable climate and conditions for political talks. If the region and the region's countries get some guarantees or at least a certain view of their prospective, the crises' settlement process would be facilitated.

5. In my view, this is the right moment to address problems of the region in a comprehensive way and the Council of Europe, for the reasons I mentioned above, is well placed to carry out this task.

6. What I propose here is to look closer at the concept of a Stability Pact which has already been tested in the Balkans, with a view to possibly using its experience in the South Caucasus. This should be based on the acknowledgement of both similarities and differences between the Balkans and the South Caucasus.

7. The motion for a recommendation was presented in 2004 on the initiative of Mr Toshev from Bulgaria. Mr Toshev, who is no longer member of the Parliamentary Assembly, used to be Rapporteur on the Stability Pact for the Balkans. He immediately noticed the chance offered by such an initiative to the troubled region.

8. The idea of the Stability Pact for the South Caucasus was launched for the first time at the Istanbul Summit in November 1999 by Presidents Kocharian and Aliyev; it was then reiterated by outgoing Turkish President Demirel in January 2000, and again by Kocharian in March 2000. However, objections raised by Russia and Iran to various aspects of these proposals has left them, for the moment, without any follow up.

9. Then, in the report on the ENP adopted in 2005, the European Parliament expressed its support for this idea. This encouraged me as Rapporteur on behalf of the Parliamentary Assembly to advance with this idea, which with the support of two assemblies would have more chance of getting through.

10. I participated on behalf of the Parliamentary Assembly, in the Hearing organised by the European Parliament on "Promoting stability and Democratisation in Our Neighbourhood: what role for the EU in the South Caucasus?" held in Brussels on 22 February, and subsequently I have proposed continuing the reflection and that the Political Affairs Committee of the Parliamentary Assembly organise the Hearing with participation of representatives of the three countries concerned, European Union, and other international players. This very informative Hearing was held in Brussels on 12 May 2006, and its conclusions are the basis for this memorandum.

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<sup>1</sup> See Doc. AS/Bur/NK (2005) 02 rev. 2.

11. I do not exclude that following the discussion in the Committee on the occasion of the presentation of this memorandum I will consider it necessary to go to the region to get some additional information.

## II. PRESENT SITUATION IN THE SOUTH CAUCASUS

### *i. Active and latent conflicts*

12. Over ten years have passed since the formal ceasefire agreements which ended the armed conflicts in Nagorno-Karabakh and Abkhazia. But in neither case, has the ceasefire been confirmed by a political settlement. Similarly the frozen conflict over South Ossetia makes the situation very unstable. The whole region is rife with conflict potential, the tension is present and armed incidents at the borders take place on an everyday basis.

13. Developments since 2004 concerning the main conflict in the region over Nagorno-Karabakh, and in particular the so-called Prague Process, have given rise to some cautious optimism. Despite the lack of concrete results of the last meeting of Presidents Kocharian and Aliyev in Bucharest, on 4 June 2006, the mere fact that the dialogue is carried at the highest level is a positive sign which should be given utmost international support.

14. In the meantime, however, the Azeri Government has almost doubled military spending in 2005 as compared to 2004. Georgia and Armenia's military expenditure were also increased. For countries which cross a difficult process of state-building and societal modernisation and which badly need a sustainable economic development, such an unbearable military expenditures burden speaks for itself proving that the geo-political conflicts are keeping the social and economic progress prisoner.

### *ii. Political instability*

15. All countries in the region suffer from the weak state syndrome. There are shortcomings in democratic institutions and the principle of the rule of law although the situation in Georgia has to a certain degree improved within the last few years.

16. In November 2005, parliamentary elections were held in Azerbaijan and a referendum on constitutional amendments took place in Armenia. According to the official results, both were won by the government side, while the opposition suffered a crushing defeat. Allegations of massive fraud were largely supported by international observers including those from the Parliamentary Assembly.<sup>2</sup>

17. All three countries are under the monitoring procedure of the Parliamentary Assembly of the Council of Europe.<sup>3</sup> The ENP Action Plans for each of the three countries fix objectives to be achieved in the democratisation process for the years to come and the Council of Europe plays an important role in their implementation.

### *iii. Economy*

18. The latent and frozen conflicts, and in particular the conflict over Nagorno-Karabakh is impeding the economic and social development of both countries. It is indeed hard to ask countries in conflict or having occupied territories to co-operate.

19. Thanks to rapidly increasing Azeri oil production, the GDP growth of this country is expected to achieve 27% this year. Gas production on a major scale will start soon. In parallel with the production increase, new energy infrastructure is being constructed (BTC pipeline, BTE gas pipeline BTK railway). As a result, country's export revenues are booming and the strategic importance of the region is increasing considerably. Allegations of massive corruption, absence of major initiatives for using inflowing resources for long-term development and the apparent incapability of the political system to reform itself raise certain concern.

20. The economic development is not so spectacular in Armenia, although the situation has improved considerably. However, economic blockages imposed by Azerbaijan and Turkey, and the lack of regional co-operation has impeded the natural development of the economy. Corruption is also a major problem in this country.

<sup>2</sup> See Doc. 10751 (2005).

<sup>3</sup> See Docs. 10569 (2005), 10383 (2005) and 10163 (2004).

21. Georgia's economy, with the help of the IMF and World Bank, has made substantial economic gains since 1995, increasing GDP growth and slashing inflation.

22. All three countries suffer from the displacement of their population. Azerbaijan has one of the largest per capital refugee and displaced person burden in the world. There are 578 000 internally displaced persons and 8 606<sup>4</sup> refugees dispersed throughout the country. In Armenia there are 235 000 refugees as compared to 3,5 million inhabitants. The total number of internally displaced persons and refugees in Georgia accounts for 237 000. The population of Georgia is 5.5 mln.

23. Beside all these, each of the region's countries is too small a market for attracting important investments from abroad. They are also very much dependent either on oil exploitation or its distribution, a fact which might be, on a short term, an asset but, usually, on the long term is a liability.

### III. COMPARISON OF THE STABILITY PACT FOR THE BALKANS AND CAUCASUS

24. The Stability Pact for the Balkans has been established by the European Union in co-operation with key international organisations operating in the region. The concept is the following: under the aegis of the Stability Pact, the countries concerned elaborate projects involving two or three of them in different areas including infrastructure, economy and social development. The Stability Pact has no own funds, its role consists of looking for possible sources of financing and bringing projects and donors together.

25. Despite certain criticism, there is a common agreement that the Stability Pact has contributed to the increase in regional co-operation and economic development in the Balkans.

26. However, even if there are many similarities between the Caucasus and the Balkans, they cannot hide the differences. Whereas the Balkans are in the heart of Europe, the Caucasus is on its edge. Even if Europe gets more involved in the region it will remain only one of several interested parties including large states like Russia, USA, Turkey or Iran.

27. Within this context, one should mention that the "internationalisation" of the Western Balkans took place before the launching of the Stability Pact for South-Eastern Europe. The NATO strikes and the international presence in Bosnia-Herzegovina and Kosovo, as well as the international isolation of the then Serbia-Montenegro, the most powerful country from the region have created an atmosphere of desperation and humility which together with the sense of external dependence made the project of the Stability Pact acceptable in the region.<sup>5</sup>

28. However, the most important difference between the Balkans and the South Caucasus is that the frozen conflicts in the latter are still latent and in consequence the situation is unstable.

29. Furthermore, the EU membership perspective is not present in the Caucasus unlike the Balkans. This perspective played an important role. Prospect of EU membership was a key incentive for the governments concerned to undertake reforms and most successes within the Stability Pact would not have been achieved without that perspective.

30. Paradoxically the clear lack of prospective for the EU accession of the Caucasian States might eventually oblige them to understand that the only alternative they have is the regional integration versus a "satellitesation" (becoming satellites of one or more international power).

31. Furthermore, other instruments may be used as leverage and the European Neighbourhood Policy which is shaped for the Caucasus is designed as such an incentive. This policy should offer the "EU model" as an incentive and as a reachable target, since the "EU membership" is not available or realistic.

32. In conclusion, the Stability Pact for the Caucasus would have to be considerably different from the Stability Pact for the Balkans taking into account specific situation, geopolitics and particular concerns of the region. The Stability Pact for the South Eastern Europe could only be a source of inspiration from the point of view of the basic principles, and as a review of mistakes to be avoided.

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<sup>4</sup> All figures come from UNHCR Statistics (2004).

<sup>5</sup> Even so, throughout the years it has appeared with clarity that a real sense of co-operation and security through a joint development was absent and consequently everybody was looking for the promotion of a separate agenda (the individual membership in the EU being a clear individual goal). Today, in spite of the Stability Pact, the Western Balkans continue the process of dismantlement in small states and refuses a regional integration as a preliminary step to the European integration.



#### **IV. PROJECT OF A WIDER BLACK SEA REGION**

33. On different occasions, including the Hearing held in Brussels, the project of the Wider Black Sea Region has been advanced. Its main idea consists of linking a Stability Pact for the South Caucasus with a similar project for the Black Sea Region, or alternatively to conceive a single Pact for both regions.

34. However tempting, in my view, such a joint project is unrealistic at this stage but does not exclude returning to it at a later stage. For the time being both regions have different problems which need to be addressed separately.

35. Another argument against such a wider pact is that it would be difficult to envisage real integration of such a vast region, in particular, taking into account that the countries composing both these regions have different status in international arena and resulting from it different political prospects and agendas. They include EU members, NATO members, CIS members, EU candidates, EU neighbours etc. These differences obviously imply different strategies and political ambitions.

36. Last but not least one cannot avoid the fact that such a huge region could and would be perceived by the US as an EU substitute for their similar projects in the area and by Russia as another attempt to exclude it from the region by creating a heterogeneous local alliance sponsored and controlled by the EU.

#### **V. ATTITUDE OF THE COUNTRIES CONCERNED AND OF THE MAJOR INTERNATIONAL PLAYERS**

37. The Hearing in Brussels showed that all those concerned or involved or having a vested interest in the project seem to be for the time being indifferent or even against the idea of the establishment of the Stability Pact for the South Caucasus.

38. Armenia would support the establishment of such a Pact if this would not weaken its position within the present status quo, in respect of which it could offer no real compromise solution yet.

39. Azerbaijan, on the contrary, considers as a necessary condition a political settlement of the conflict over Nagorno-Karabakh. In other words, it does not see the Pact as a chance for resolving the conflict. The Azeri representative at the Hearing put it very bluntly saying that Armenia's withdrawal from Azeri territory is key to any prospects for regional co-operation.

40. Georgia's interest in the Pact is conditioned by its integration with NATO and EU. It is clearly said that Georgia does not wish to restraint its ambitions to regional integration and it does not want it to jeopardise its integration with international structures of its choice.

41. Russia's position is conditioned by its clear wish to maintain its presence and position in the region. It wants to preserve its alliances in the region and would certainly not allow it to transform the region into a rival power able to limit its manoeuvring capacity in the area.

42. The European Union does not really consider the project as an improvement of the EU's existing policy. The Commission's representative at the Hearing in Brussels said that there was not much difference between the Stability Pact project and what the ENP was offering. However, one may assume that the EU would not oppose the establishment of the Pact as long as it did not hinder or overlap with the ENP. Unfortunately, the ENP is not entirely defined yet. Moreover, it is based rather on an individual than regional approach, which is not enough, to say the least.

43. The position of the USA would be positive as long as the Pact would not stop its expansion towards the region under NATO coverage and would not hinder their capacity to intervene in the region whenever they feel that their interests there are threaten.

44. Turkey would agree as long as the Pact would not weaken the territorial requirements of its ally and would not limit its traditional pre-eminence shared with Russia in the Black Sea region (as a country mandated by the Montreux Treaty to guard the straits).

45. In conclusion, it is clear that the position of all those involved is unfavourable towards the present logic of the Pact. This observation implies one of the following two solutions: either the idea as a whole is abandoned or the logic of the Pact is changed. I, personally support the latter. In my opinion it should be modified in such a way as to respond at the same time to the need for stability and security of the Caucasus as a region and to the various ambitions and fears of the countries concerned. To this end, one must recognise the interests of each of the Caucasian countries (thus leaving them to become subjects of their

own history) and of the international major players (whose interests are also legitimate at least to the extent to which they cannot be ignored).

## **VI. GUIDING PRINCIPLES FOR THE PACT**

46. Having presented the outline of the situation I conclude with the following: the international community cannot and should not impose any Stability Pact on the South Caucasian countries but it could undertake to impose a Stability Pact for or in respect of the South Caucasus on itself. It would mean a joint strategy – including a joint offer – to which different international actors would contribute.

47. This joint strategy should consist of encouraging and assisting regional integration along the lines of five “C” approach – communication, consultation, confidence building, co-ordination and co-operation.

48. Since EU membership could not be used as an incentive for the regional integration of the South Caucasian countries, the proposed substitute should be the “EU model”. The EU should offer clear and generous support in order to establish in the South Caucasus a “small EU” in the form of the Trans Caucasian or South Caucasian Commonwealth.

49. The Stability Pact must be based on a well stimulated solidarity of interests of the South Caucasus countries which should allow for the elaboration of common projects aimed at achieving security through democracy, and stability through development. This approach would enable the overcoming of cultural / interethnic disputes by moving the debate from the irrational field of the identity confrontations to the rational field of meeting substantial needs.

50. Other principles for the regional integration should be the subsidiarity, the solidarity, the transparency and the accountability;

51. Furthermore, in order to calm down the frozen or latent conflicts one should not increase tensions by bringing new military forces in the area but by addressing the roots of those conflicts and create an environment favourable to their extinction. Accordingly, the military neutrality of the region should be the driving principle for dissipating the regional conflicts.

52. The logic of the common market (including the EU internal market freedoms) connected to a common space of justice, security and development must drive the extinctions of the frozen conflicts motivating the secessionist regions to integrate into the Trans (South) Caucasian Commonwealth (once the external factors, calmed down by the neutrality of the area, stop promoting a divisive regional policy through local proxies).

53. The Pact should include the withdrawal of foreign military forces from the internationally recognised territory of another country, being clear that a co-operation is unrealistic as long as one country occupies territories of another. Therefore the Pact should not impose anything but create a frame for a solution to the frozen crises - particularly the Nagorno-Karabakh conflict - by creating a post crises perspective. I believe that the implementation of the Pact in the form of a common market following the European model would be the exit strategy from the Abkhazian and Osetian crises while the perspective to implement it could give a motivation for the Nagorno-Karabakh conflict's solution.

54. The last point should consist in the main proposals for the Pact's mechanisms. In this respect we have to preserve the three baskets or round tables: security – the main idea is the military and political neutrality of the region under a certain international agreement guarantying it (the Caucasian countries will not be part of any military or political alliance where if one of the three main international players – US, UE and Russia – are not members); economy – the main idea is to establish an internal Caucasian free market, followed by a monetary union and a harmonized tax policy, all these associated with investments (supported by international donors) addressed to the implementation of coherent regional programs of energy, agricultural, infrastructure and environment protection development; democracy – the main idea is to develop a system of decentralization, devolution and subsidiarity which could satisfy the autonomists movements in the region. (Of course the assistance for the accomplishment of the CoE commitments will continue.)

55. Finally, one must add the establishment of an International Fund for the Stability Pact on South Caucasus formed by public and private donors. The Pact should be agreed perhaps within an International Conference on the South Caucasus initiated, why not, by the CoE and it should be seen as an international offer to the Caucasian countries which will be free to joint it or not. A PACE ad-ho (Sub) Committee on the preparation of that International Conference or on the promotion and enhancement of the Stability Pact for South Caucasus itself, could and should be also envisaged.

*Reporting Committee:* Political Affairs Committee

*Reference to Committee:* Ref. 2970, 21.06.04

*Draft resolution and draft recommendation* unanimously adopted by the Committee on 05 October 2006

Members of the Committee : Mr Abdülkadir **Ateş** (Chairman), Mr Konstantin Kosachev (Vice-Chairman) (alternate : Mr Victor **Kolesnikov**), Mr Zsolt Németh (Vice-Chairman), Mr Giorgi Bokeria (Vice-Chairman), Mr Miloš **Aligrudić**, Ms Birgir Ármannsson, Mr Giuseppe Arzilli, Mr Claudio **Azzolini**, Mr Miroslav Beneš, Mr Radu-Mircea Berceanu, Mr Alexandër Biberaj, Ms Raisa Bohatyryova, Mr Luc Van den Brande, Mr Lorenzo Cesa, M. Mauro Chiaruzzi, Ms Elvira Cortajarena, Ms Anna Čurdová, Mr Noel Davern, Mr Dumitru Diacov, Mr Michel Dreyfus-Schmidt, Ms Josette Durrieu, Mr Mikko **Elo**, Mr Joan Albert Farré Santuré, Mr Pietro Fassino (alternate: Mr Pietro **Marcenaro**), Mr Per-Kristian Foss (alternate: Mr Vidar **Bjørnstad**), Mr Jean-Charles Gardetto, Mr Charles Goerens, Mr Daniel Goulet, Mr Andreas **Gross**, Mr Jean-Pol Henry, Mr Serhiy Holovaty, Mr Joachim **Hörster**, Mr Tadeusz **Iwiński**, Mr Elmir Jahić, Mr Miloš Jeftić, Mr Oskars Kastēns, Ms Darja Lavtižar-Bebler, Mr Göran **Lindblad**, Mr Younal Loutfi, Mr Mikhail Margelov, Mr Tomasz Markowski (alternate: Mr Andrzej **Grzyb**), Mr Dick Marty, Mr Frano Matušić, Mr Murat **Mercan**, Mr Jean-Claude Mignon, Mr Marko Mihkelson, Ms Nadezhda Mikhailova, Mr Aydin **Mirzazada**, Mr João Bosco Mota Amaral, Ms Natalia Narochnitskaya, Mr Grygoriy Nemyrya, Ms Carina Ohlsson (alternate: Mr Pär Axel **Sahlberg**), Mr Theodoros Pangalos (alternate: Mr Panagiotis **Skandalakis**), Ms Elsa **Papadimitriou**, Mr Christos Pourgourides, Mr Gordon Prentice (alternate: Mr John **Austin**), Mr Gabino Puche, Mr Lluís Maria **de Puig**, Mr Jeffrey Pullicino Orlando (alternate: Mr Leo **Brincat**), Mr Andrea **Rigoni**, Lord Russell-Johnston, Mr Oliver Sambevski, Mr Peter Schieder, Mr Ingo **Schmitt**, Mr Adrian **Severin**, Ms Hanne Severinsen, Mr Samad **Seyidov**, Mr Leonid Slutsky, Mr Michael Spindelegger, Mr Rainer Steenblock (alternate: Mrs Marieluise **Beck**), Mr Zoltán **Szabó**, Baroness Taylor of Bolton (alternate: Lord **Tomlinson**), Mr Mehmet **Tekelioğlu**, Mr Tigran **Torosyan**, Mr José **Vera Jardim**, Ms Biruté Vesaitė, Mr Varujan Vosganian, Mr David **Wilshire**, Mr Bart **van Winsen**, Mr Wolfgang Wodarg, Ms Renate Wohlwend (alternate: Mrs Doris **Frommelt**), Mr Boris **Zala**, Mr Krzysztof Zaremba (alternate: Mr Karol **Karski**).

*Ex-officio:* MM. Mátyás Eörsi, Mats Einarsson,

N.B. : The names of the members who took part in the meeting are printed in **bold**

*Head of the Secretariat :* Mr Perin

*Secretaries to the Committee:* Mrs Nachilo, Mr Chevtchenko, Mrs Sirtori-Milner, Mrs Pieter, Mrs Dadoun